

Washington State Economic Update

Presented to Roundtable of Thurston County

Steve Lerch
Executive Director

April 11, 2019
Olympia, WA



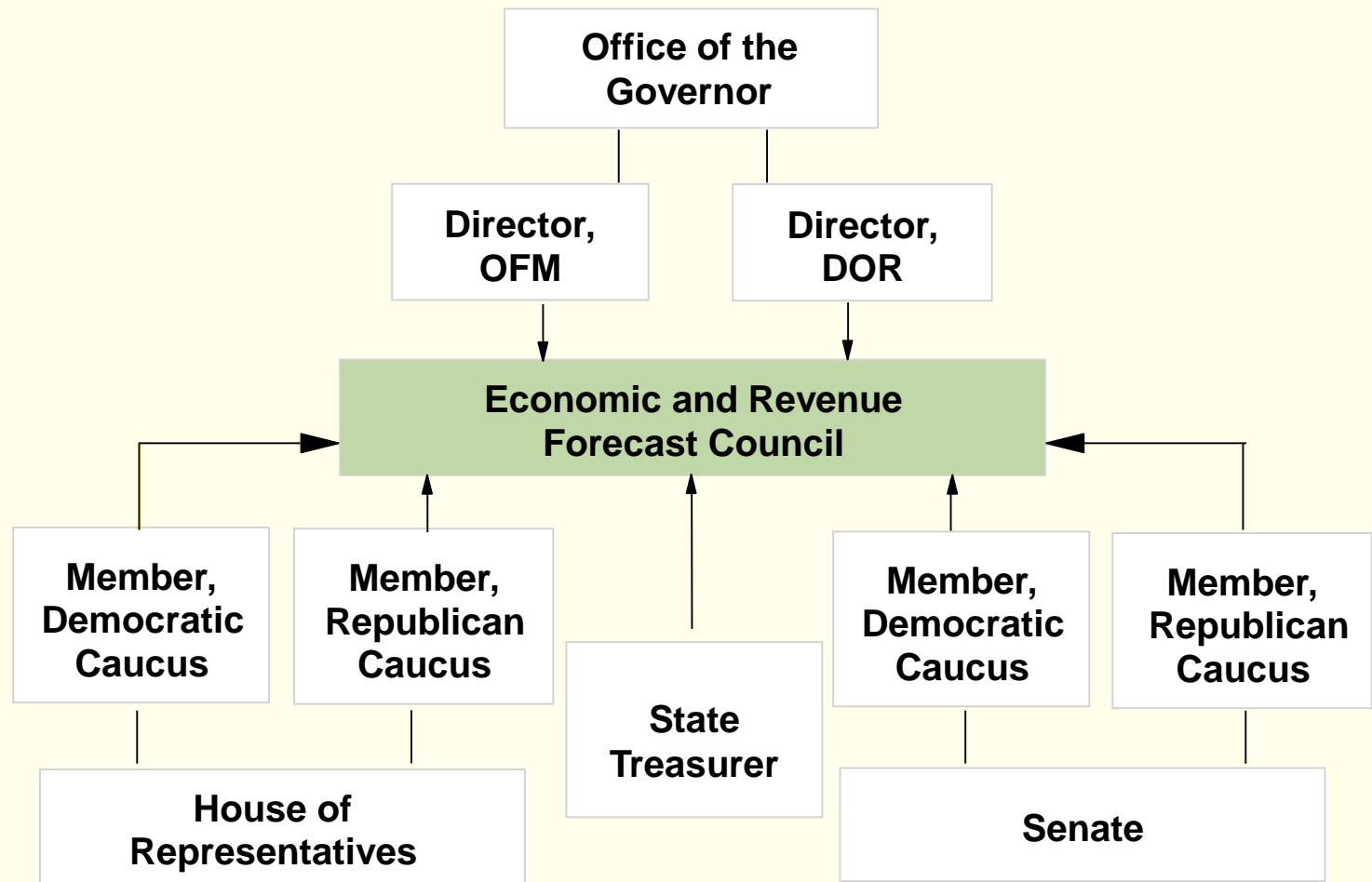
**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Economic and Revenue Forecast Council Organization Chart

ERFC

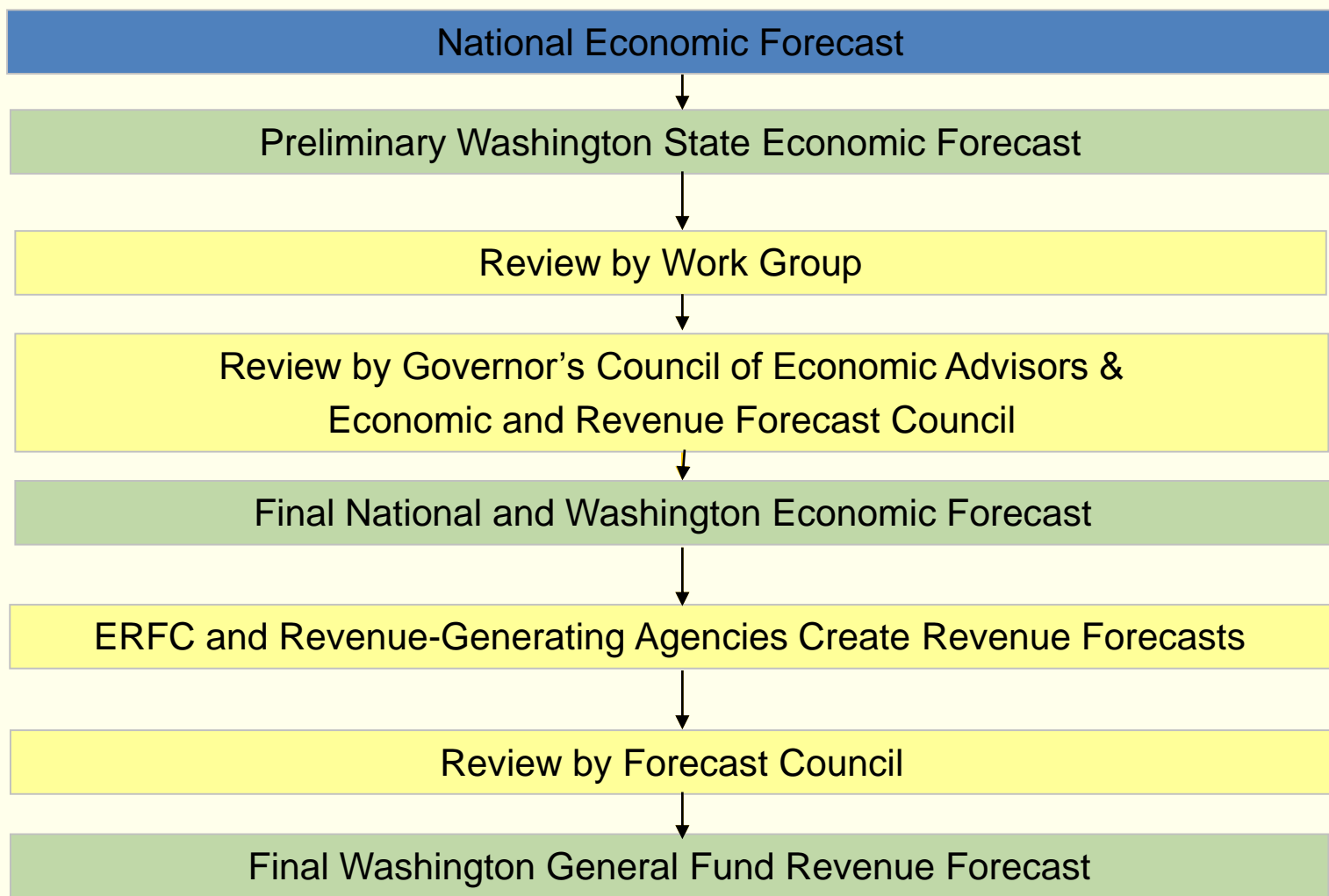
- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990





ERFC Forecast Process

The national economic forecast is based on a modified version of the IHS Markit model of the U.S. economy



WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- U.S., WA forecasts similar to the November forecast
- Baseline forecast has slowing growth but no recession
- Wage growth and inflation remain moderate
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, geopolitical concerns and a maturing economic expansion
- Potential impact of 737 MAX grounding adds a new downside risk
- The Near General Fund-State forecast is increased by \$307 million for the 2017-19 biennium and by \$554 million for 2019-21 biennium



Selected forecast risks

Labor markets

- Unemployment rate, initial UI claims low
- Job growth has been strong until February

737 MAX

- Currently, impact on WA employment and personal income unclear

International trade policy

- China – U.S. trade deal no longer seems imminent

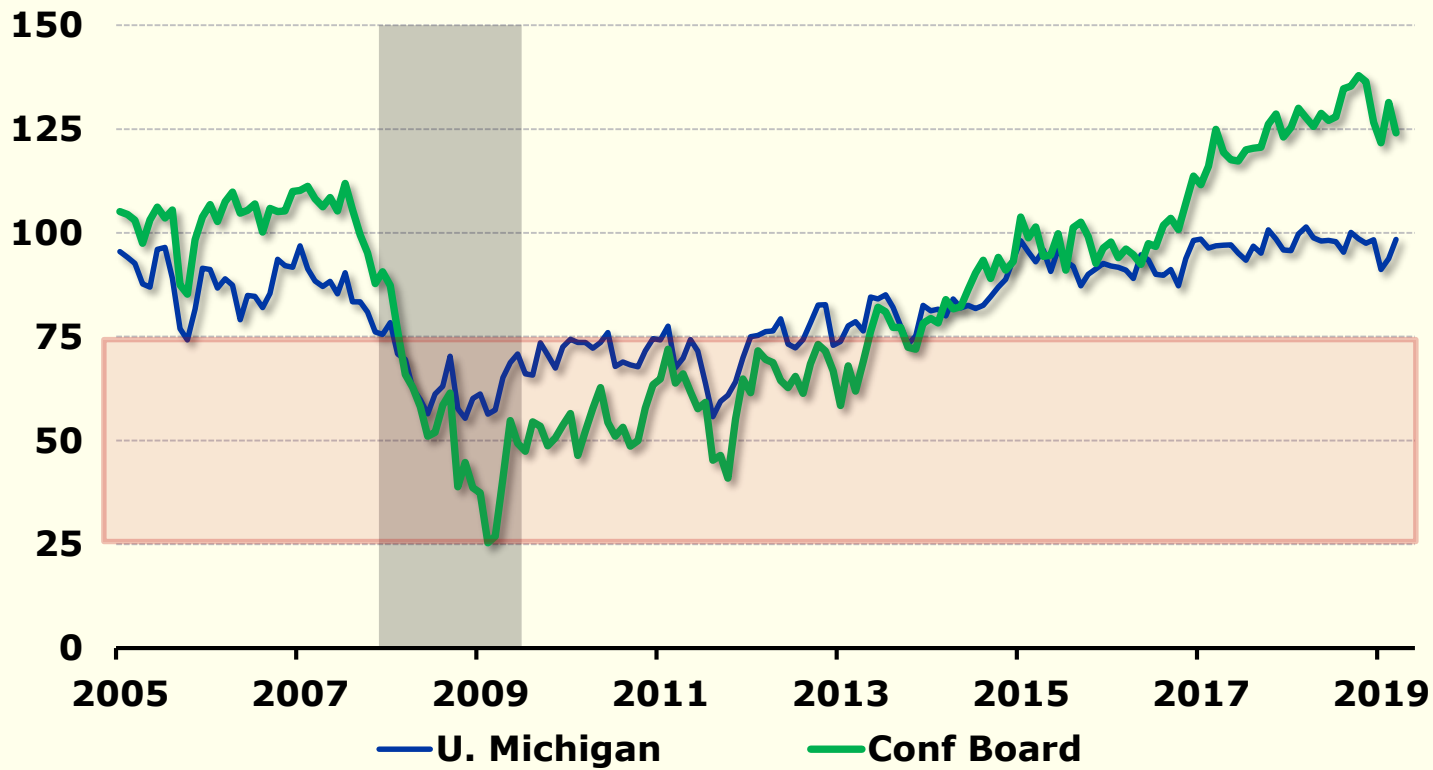


Consumer confidence dipped in late 2018 but has partially recovered, remains strong

Index

Mich: 1966Q1 = 100, SA

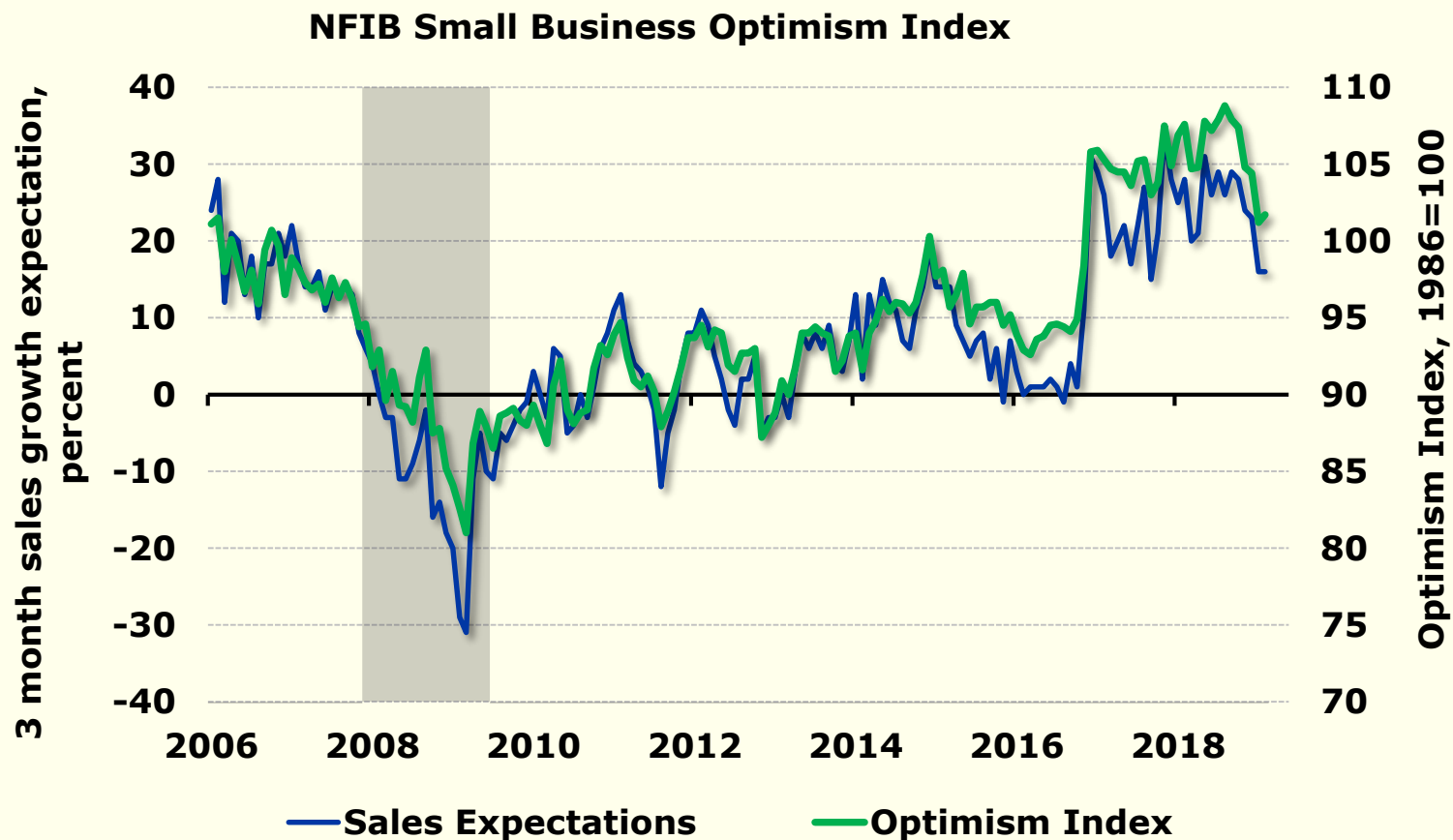
Conf Board: 1985 = 100, SA



Sources: University of Michigan, Conference Board; data through March 2019



Small business optimism has weakened recently but remains strong





Job openings continue to grow at a strong pace

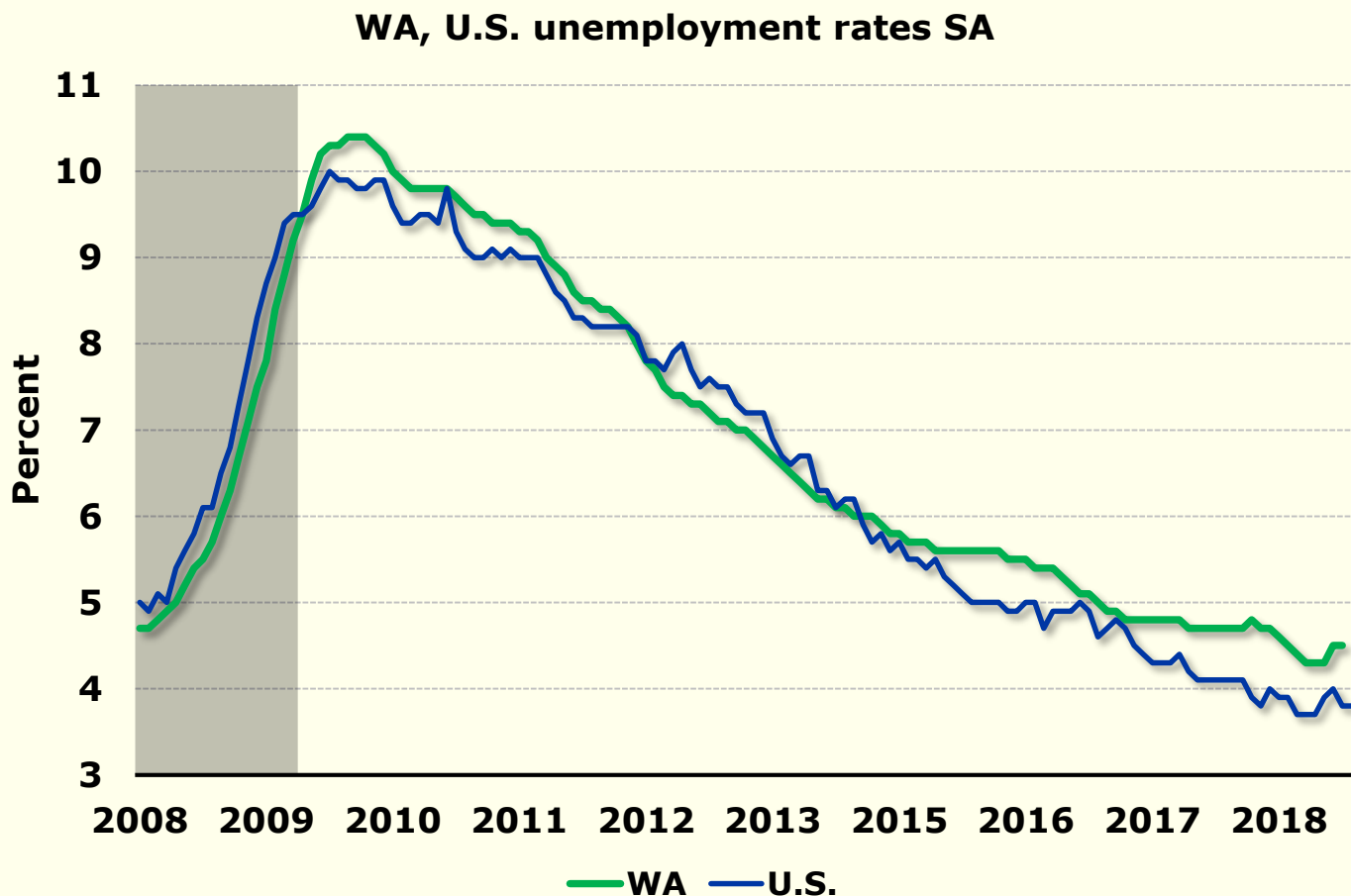
An average of 5.7 million jobs were open in 2018



Source: U.S. Bureau of Labor Statistics, data through Jan. 2019

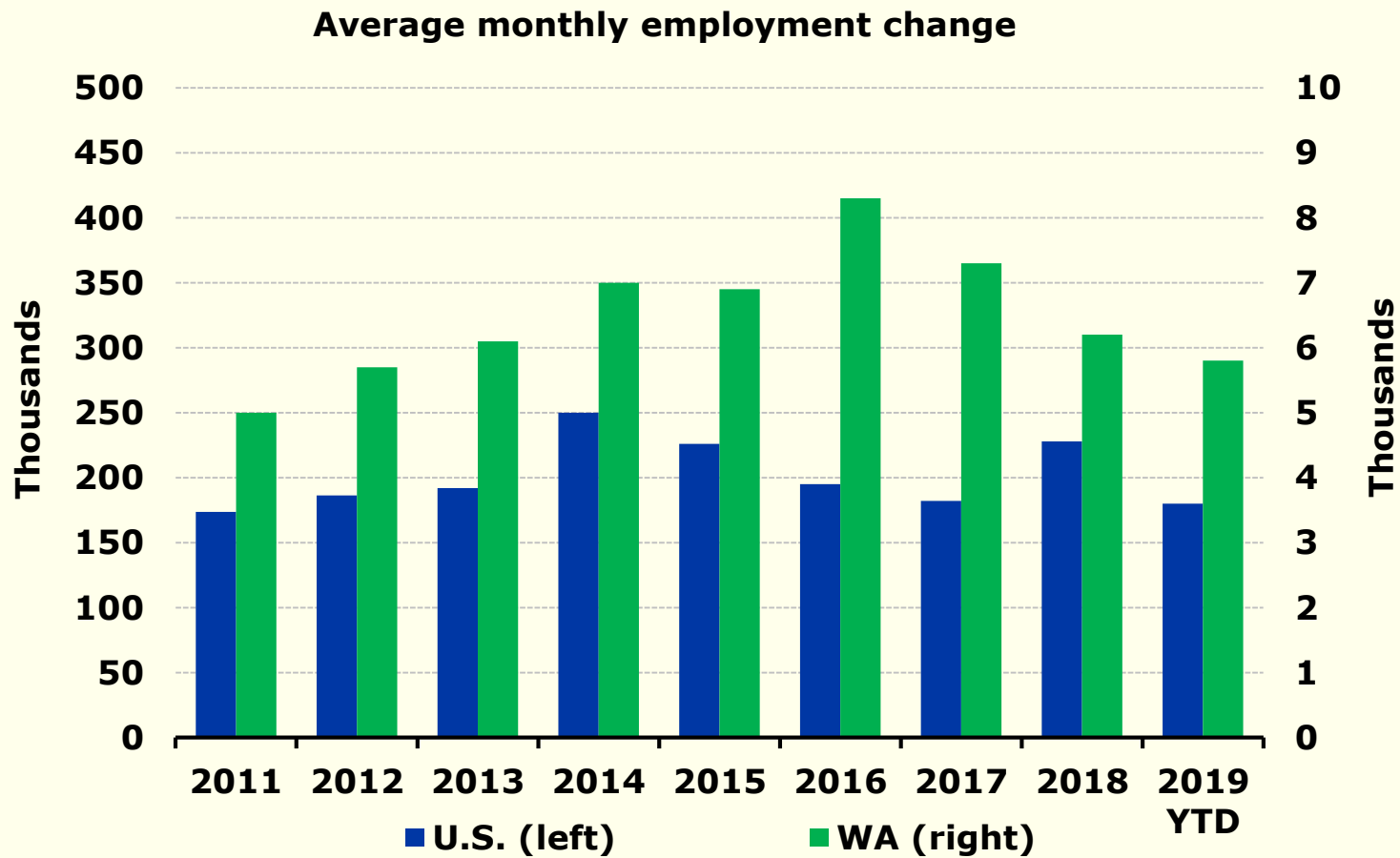


WA, U.S. unemployment rates are below pre-recession levels





U.S. job growth slowed in February but picked up in March

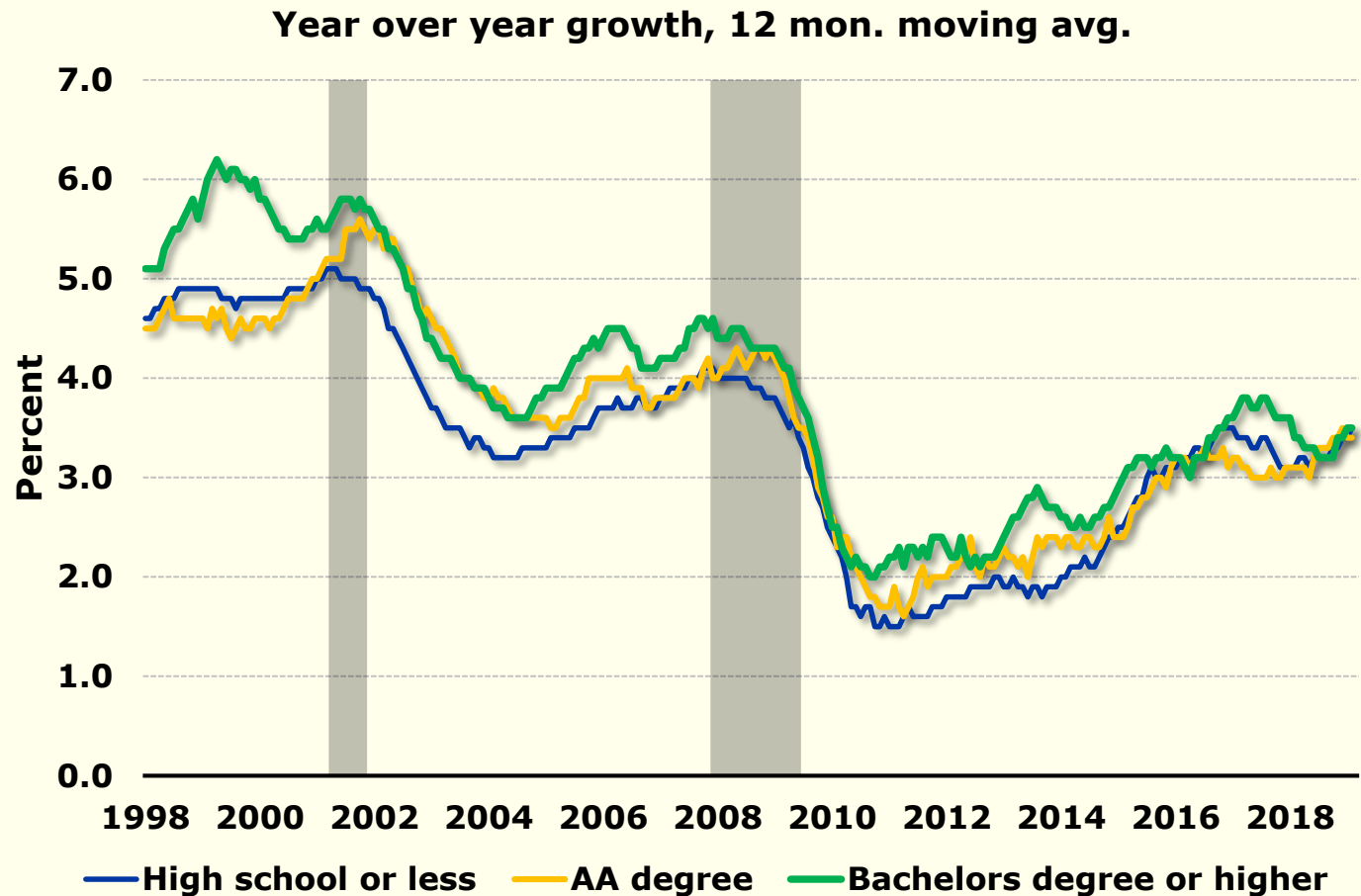


Source: Bureau of Labor Statistics, Employment Security Dept.; WA data through Feb. 2019, U.S. data through Mar. 2019

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Nominal wage growth has averaged 3.3% in last 12 months regardless of educational level

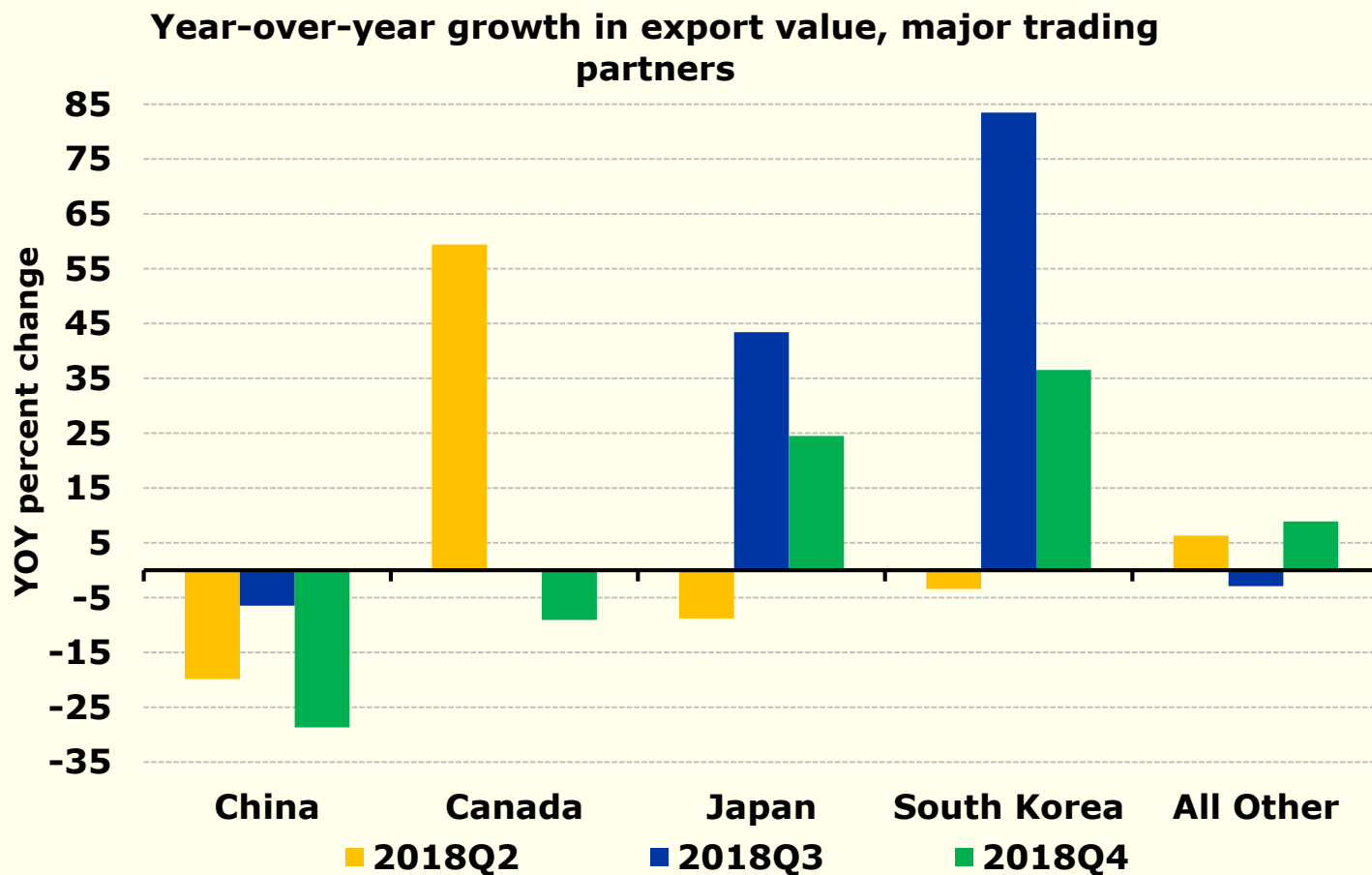


Source: Federal Reserve Bank of Atlanta, data through Feb. 2019



Exports to China are declining

After four quarters of year over year growth, WA exports declined in 2018 Q4



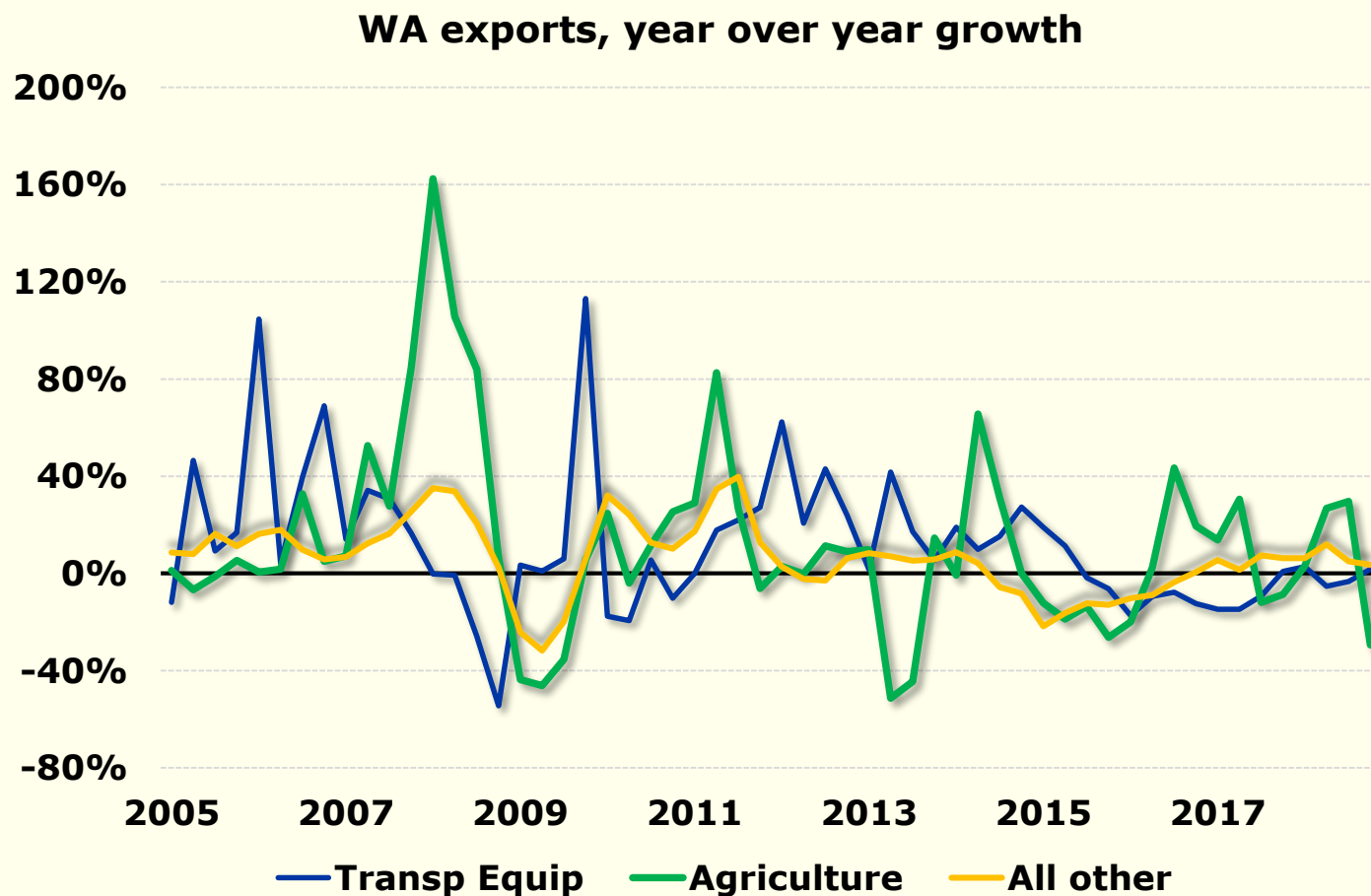
Source: WISERTrade; data through 2018 Q4



After four consecutive quarters of growth, WA exports declined in the fourth quarter of 2018

Total Export Growth

2017Q4: 0.6%
2018Q1: 3.9%
2018Q2: 3.7%
2018Q3: 2.6%
2018Q4: -2.7%

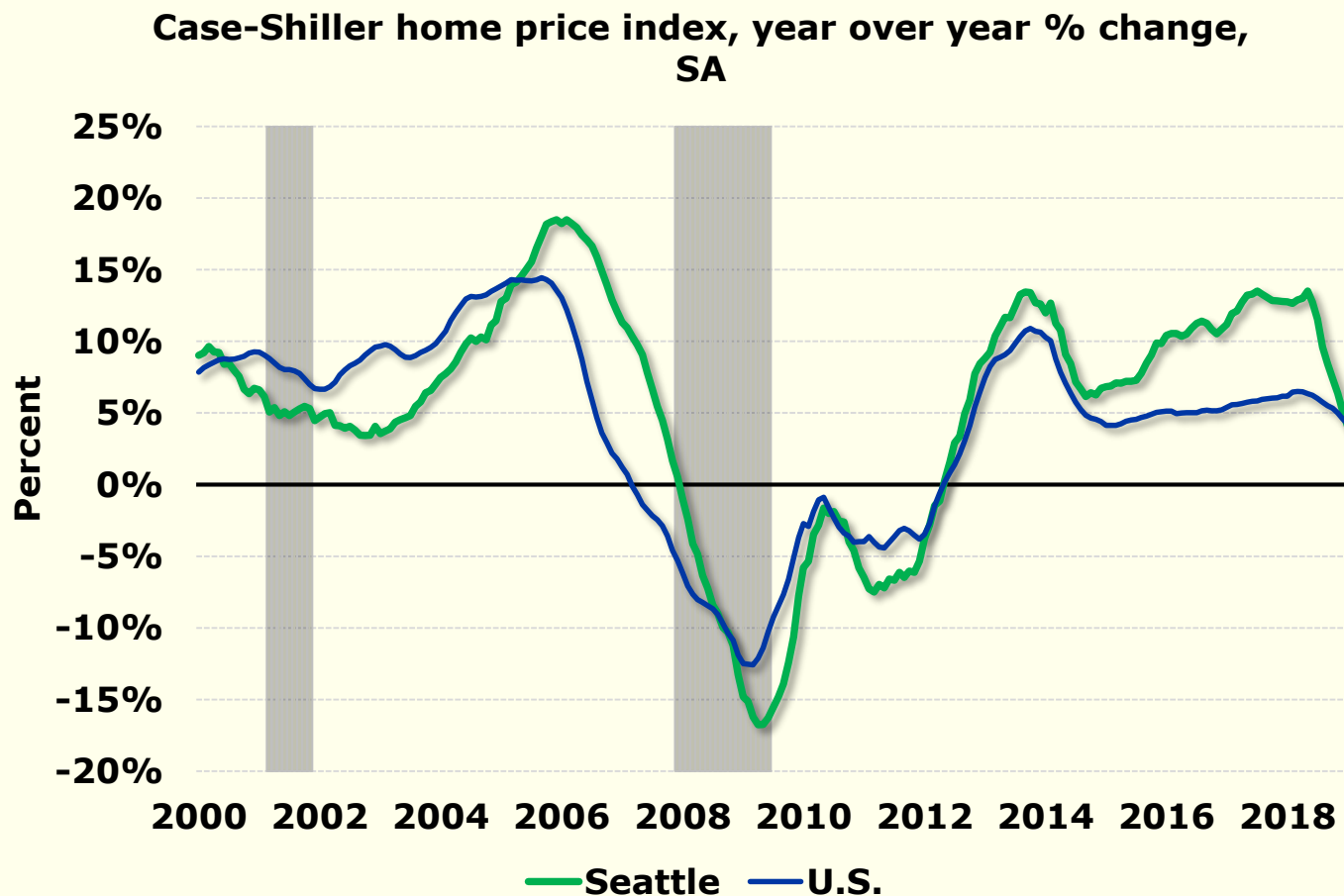


Source: WISERTrade; data through 2018 Q4



Home price growth is slowing

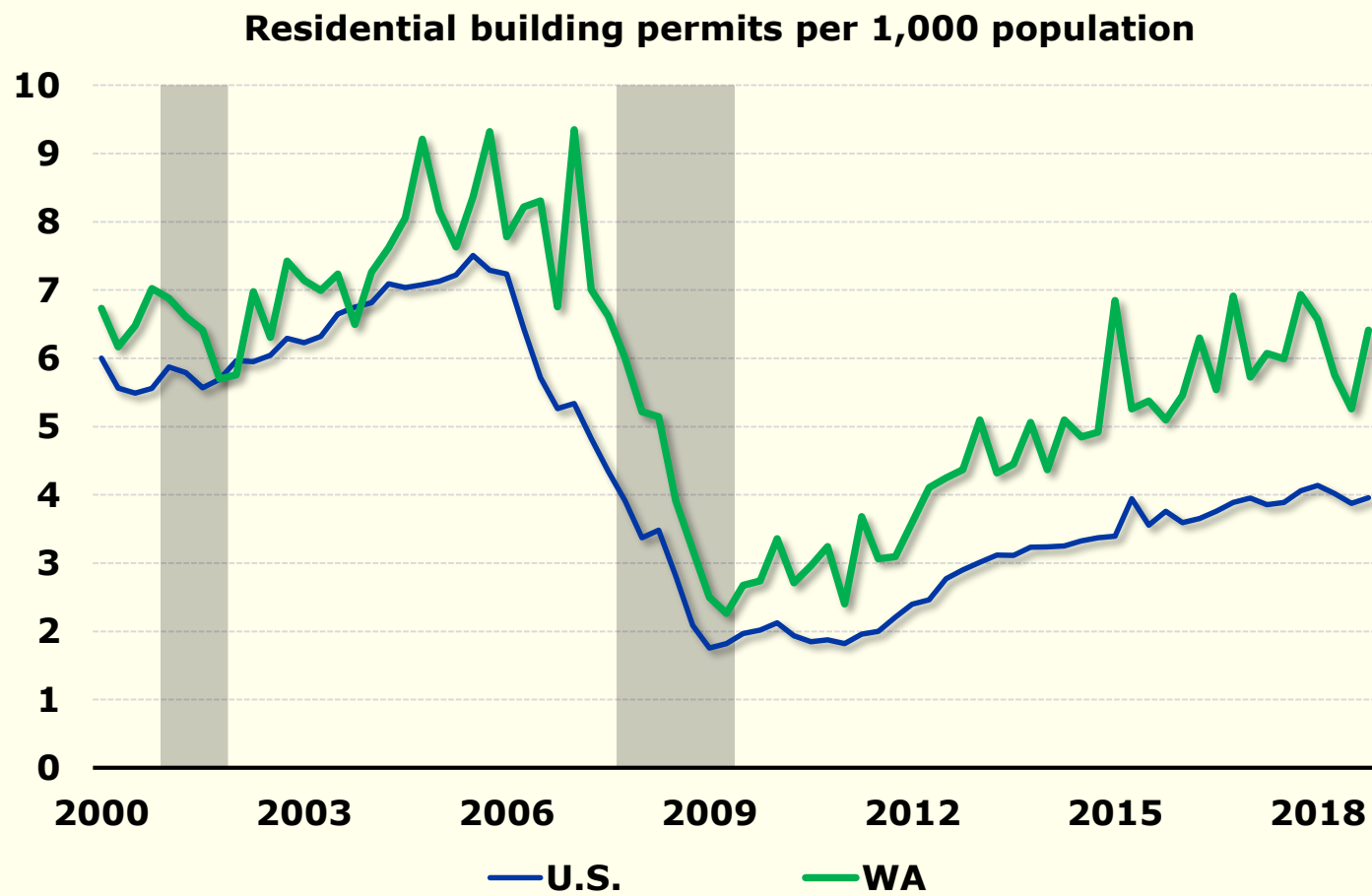
The Case-Shiller index for Seattle rose by 0.3% in January after decreasing for six consecutive months.



Source: Case-Shiller, data through January 2019



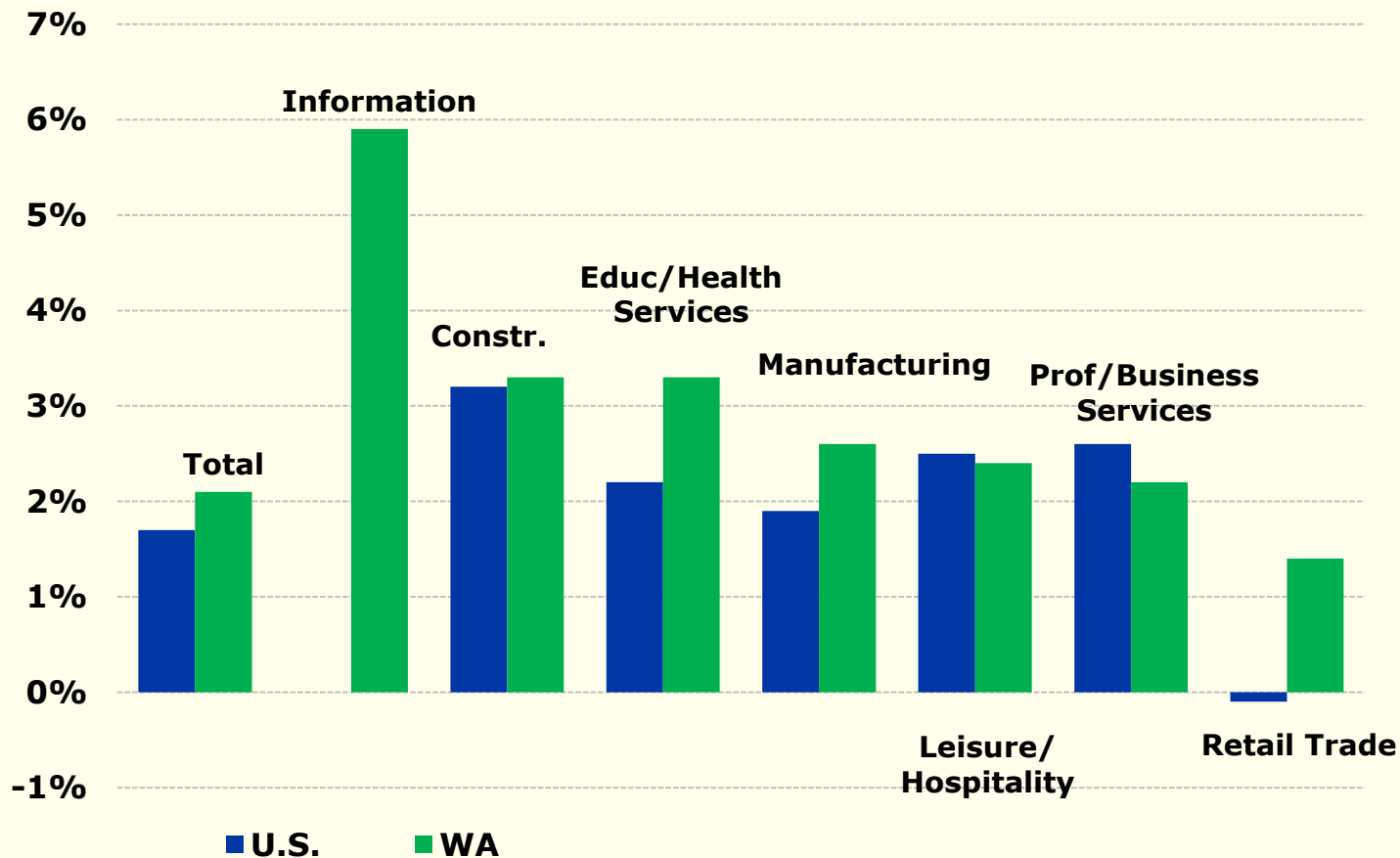
Relative to population, WA residential construction activity is stronger than the U.S.



Source: U.S. Census Bureau, ERFC; data through 2018 Q4



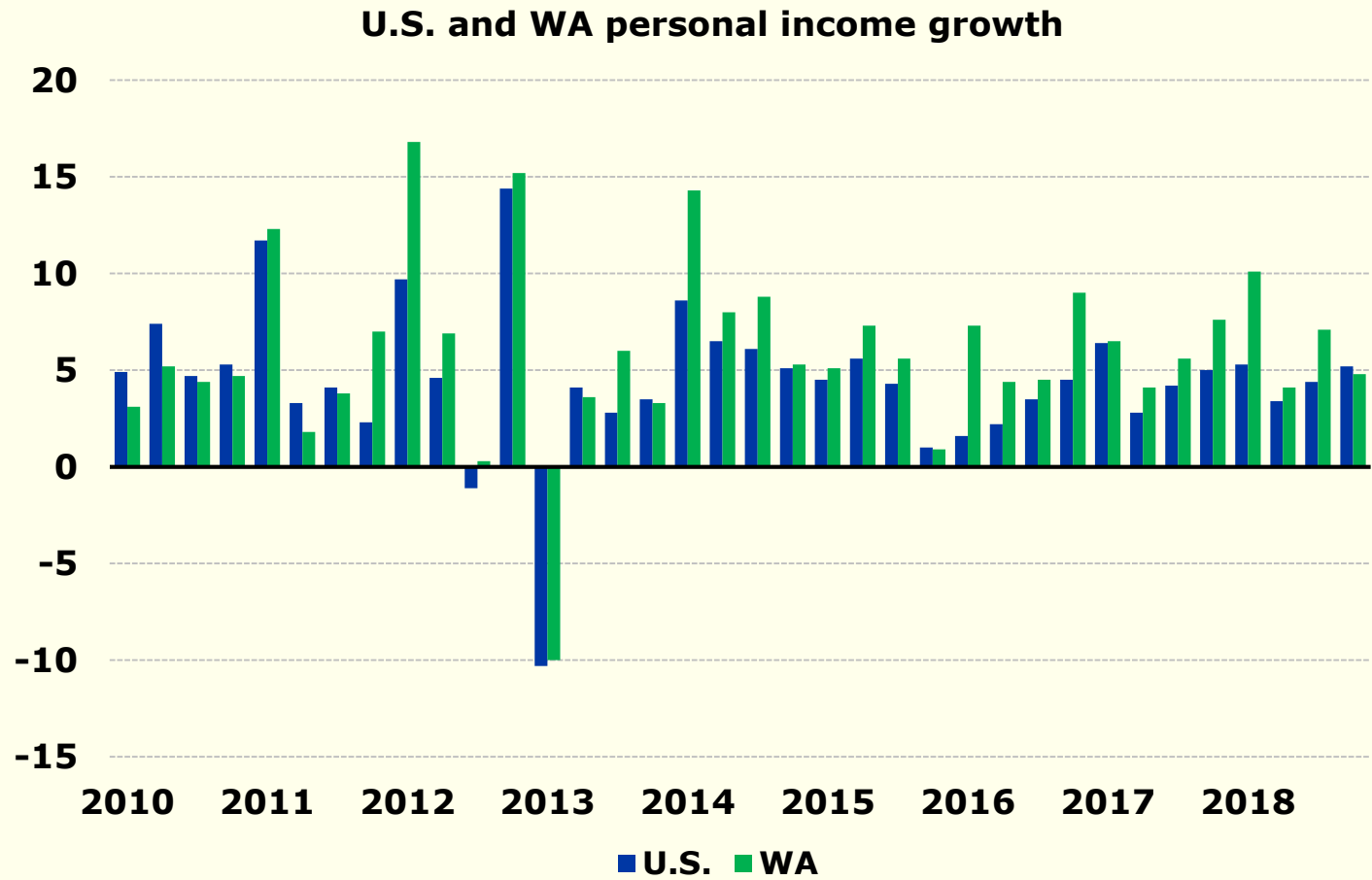
Washington vs U.S. employment growth: Feb. 2018 to Feb. 2019





WA personal income growth has outpaced the U.S. in 26 of last 36 quarters

WA personal income growth is expected to average 4.8% per year for 2019 - 2023



Source: U.S. Bureau of Economic Analysis, data through 2018 Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

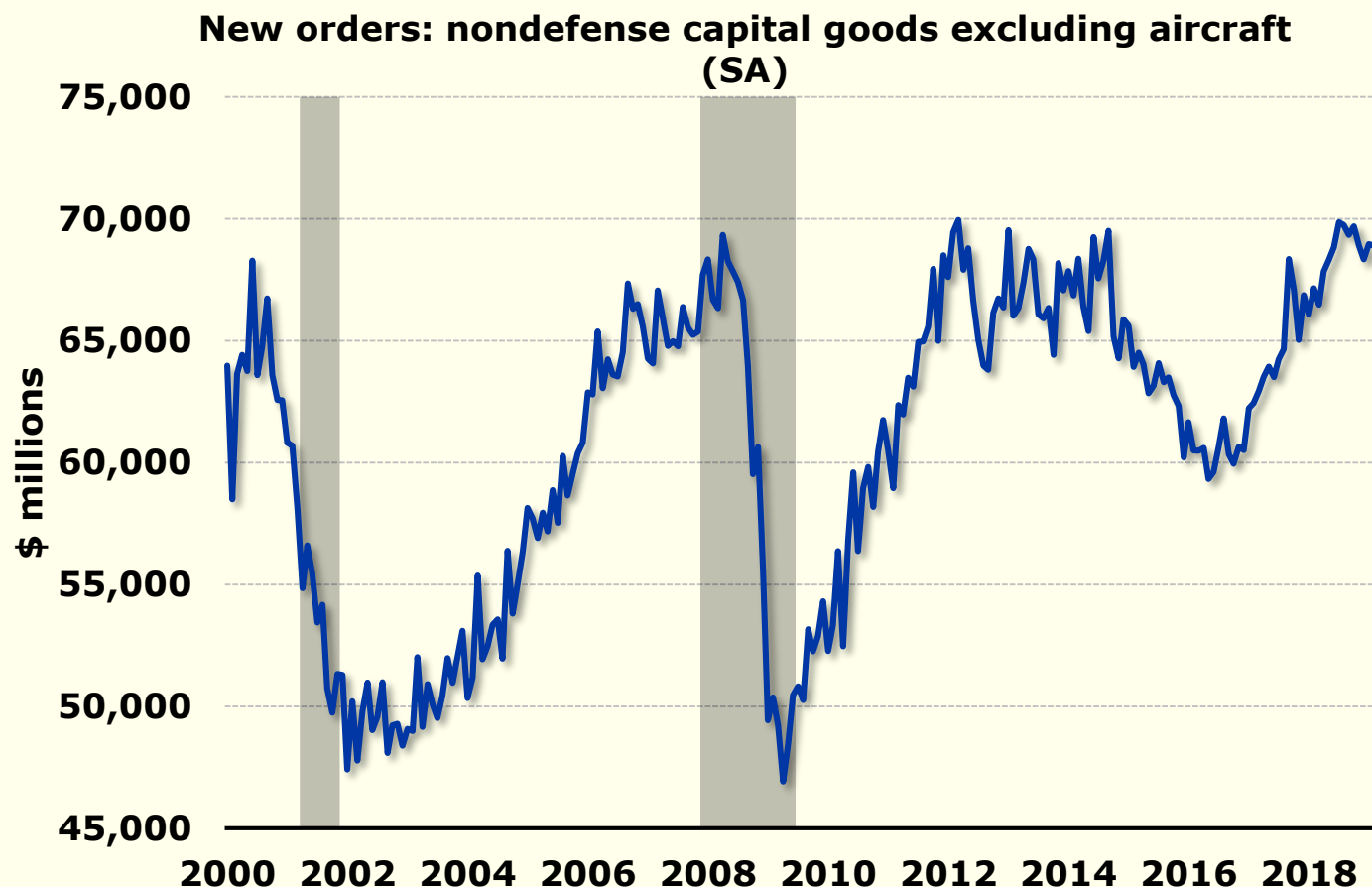


U.S. retail sales growth has slowed recently





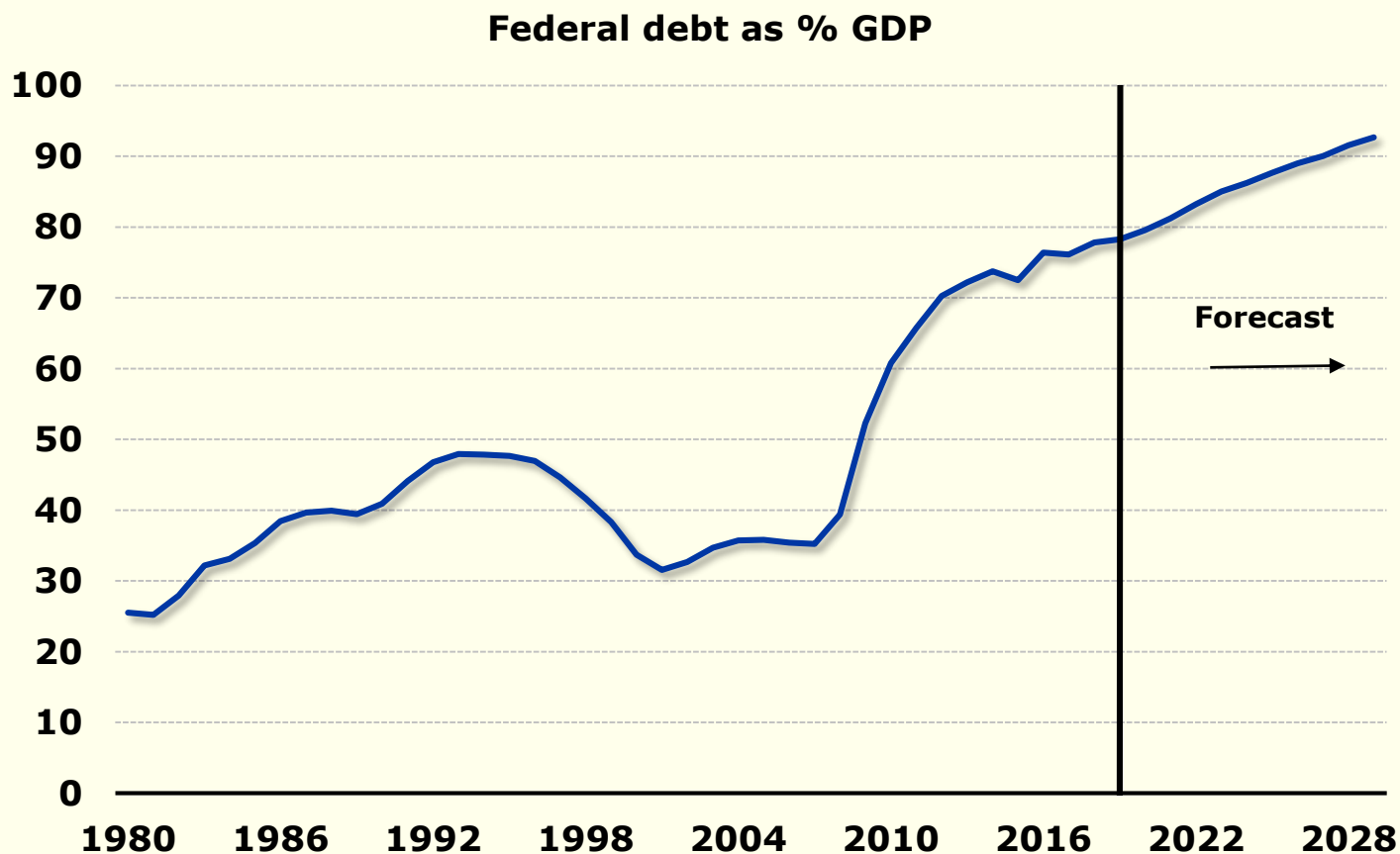
Business investment trended down in last five months of 2018



Source: U.S. Census Bureau; data through Feb. 2019

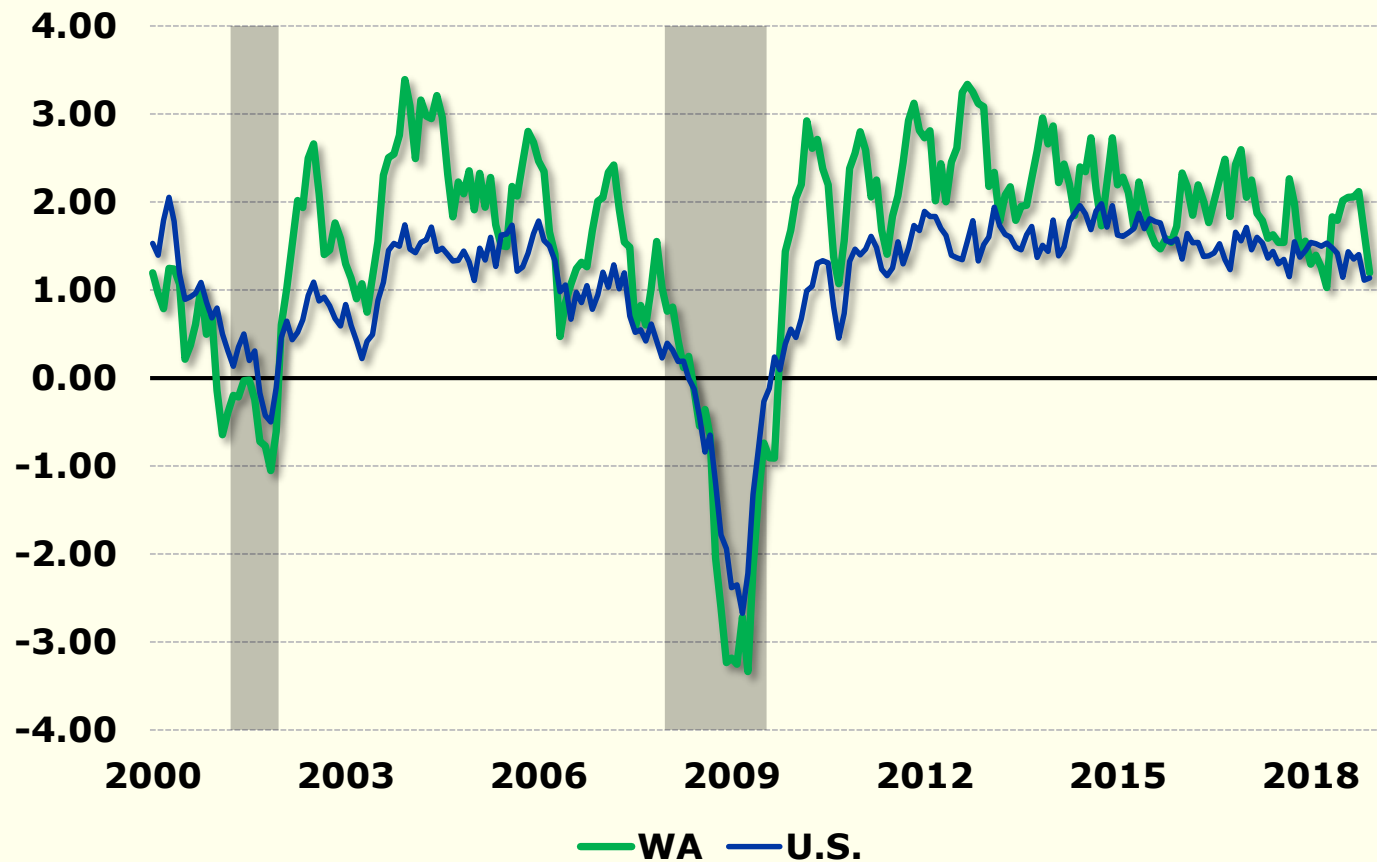


By 2029, federal debt is expected to reach 93% of GDP





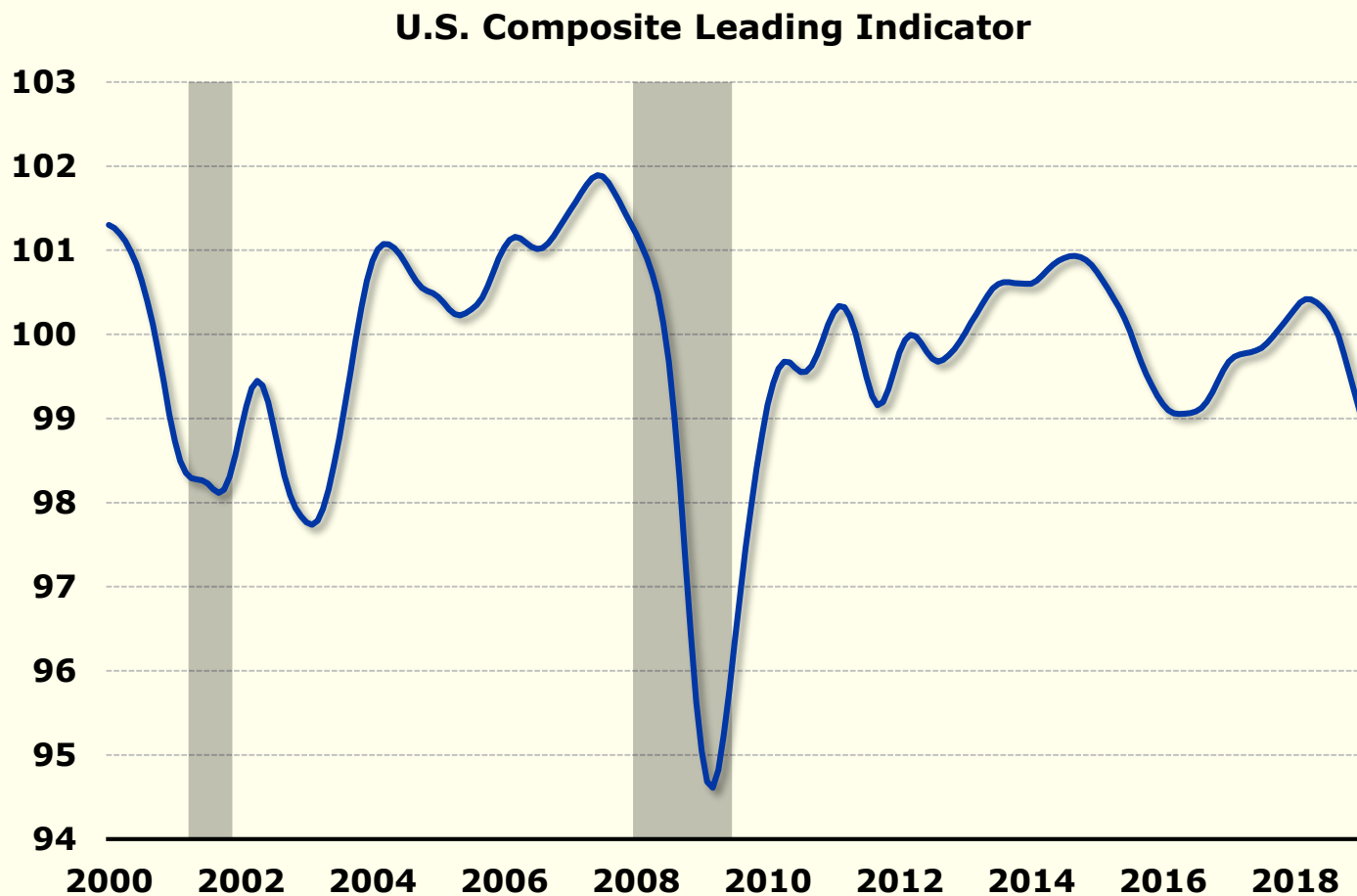
Leading economic indexes for WA, U.S. dipped recently but do not suggest a recession in near term





OECD leading index suggests slowing growth in next 6 – 9 months

The index is designed so the long-term average is 100.

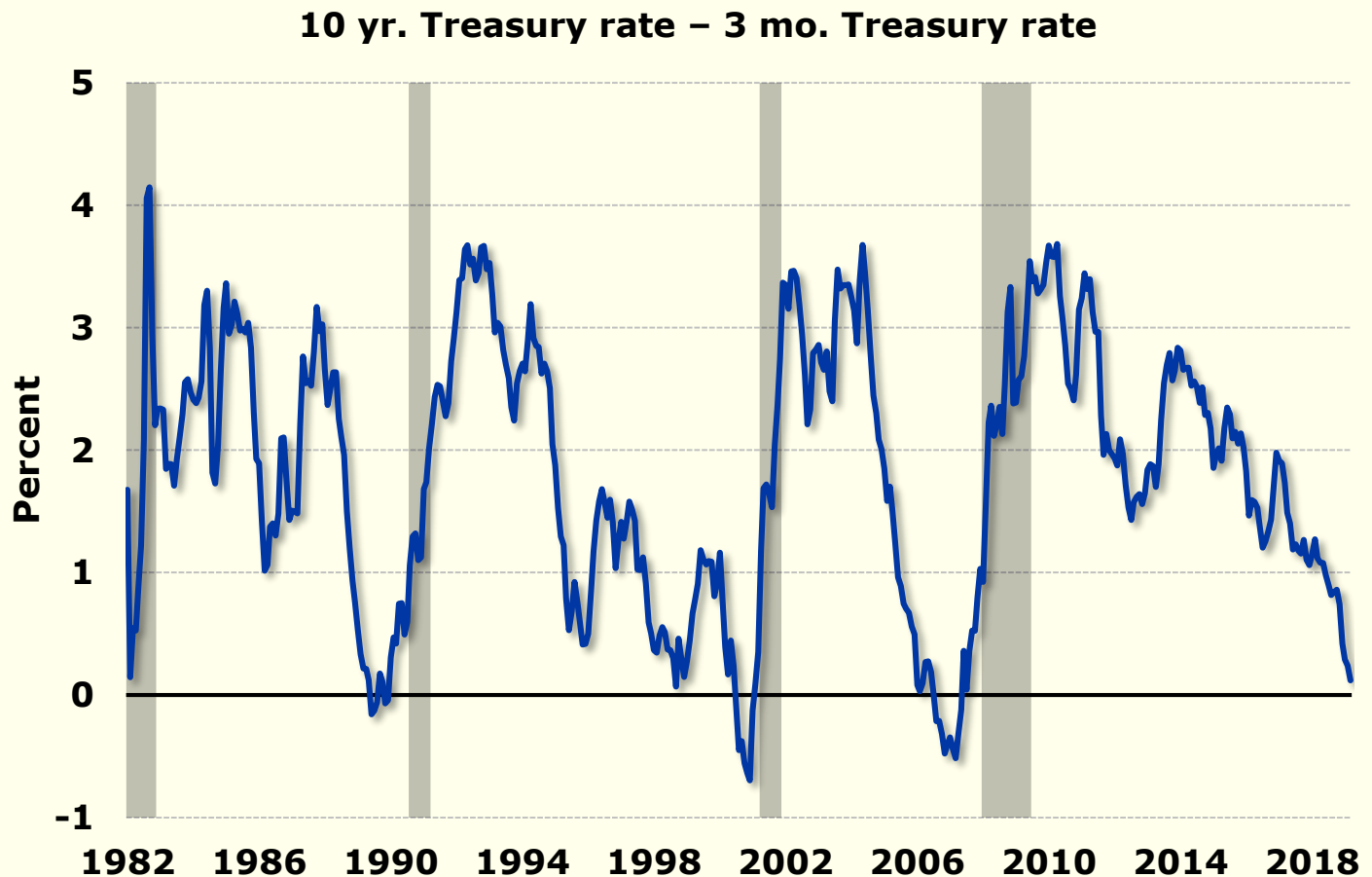


Source: Organization for Economic Cooperation and Development, data through Jan. 2019



An inverted yield curve (short-term interest rates > long-term rates) is a consistent recession predictor

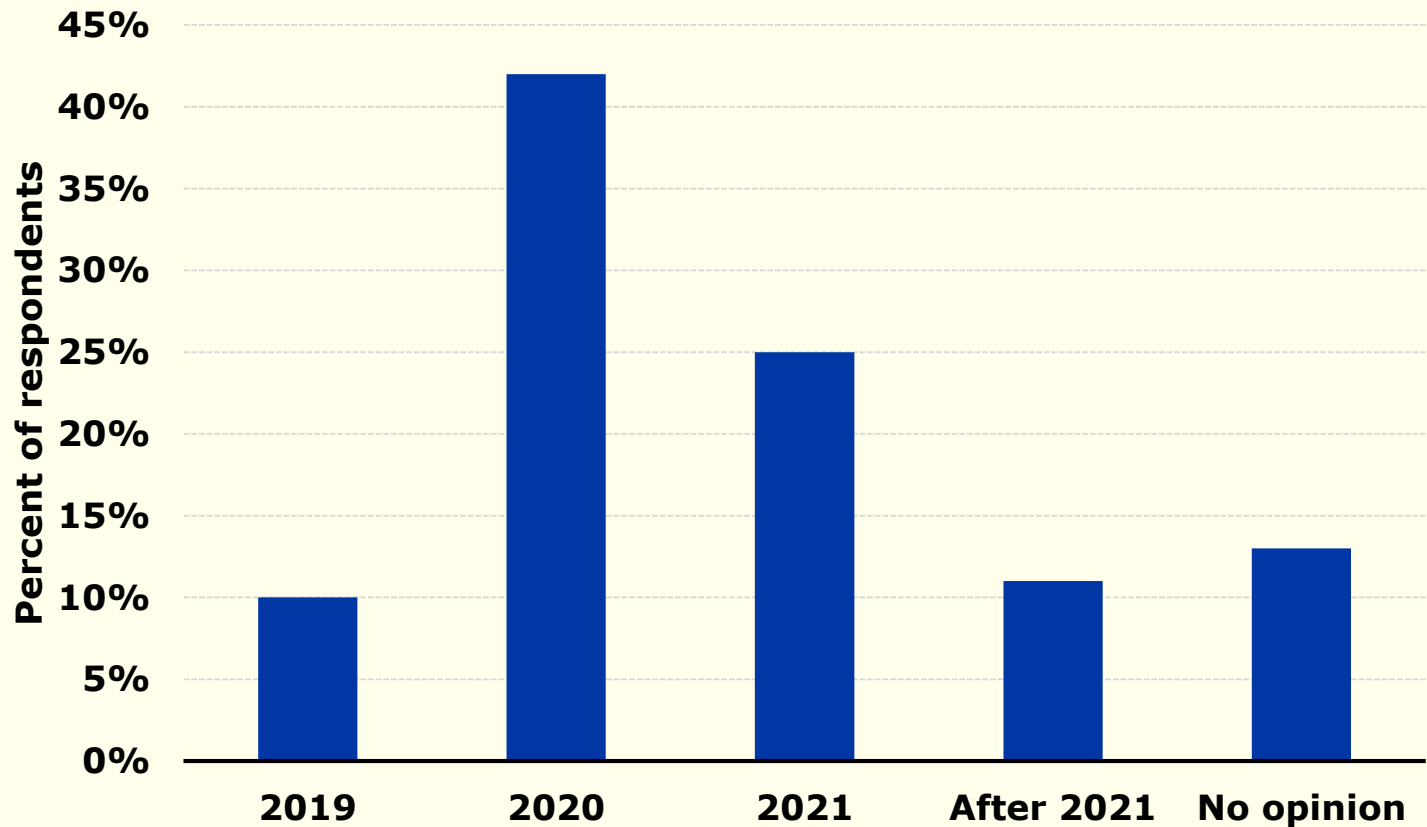
Although not apparent with the monthly averages shown here, the yield curve inverted from Mar. 22nd until Mar. 28th



Source: Federal Reserve Bank of St. Louis, monthly data through Mar. 2019



Timing of next recession: National Assoc. of Business Economists survey



Source: National Association of Business Economists, Economic Policy Survey, Feb. 2019

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Wall Street Journal economists' survey shows recession probability rising but below 25%

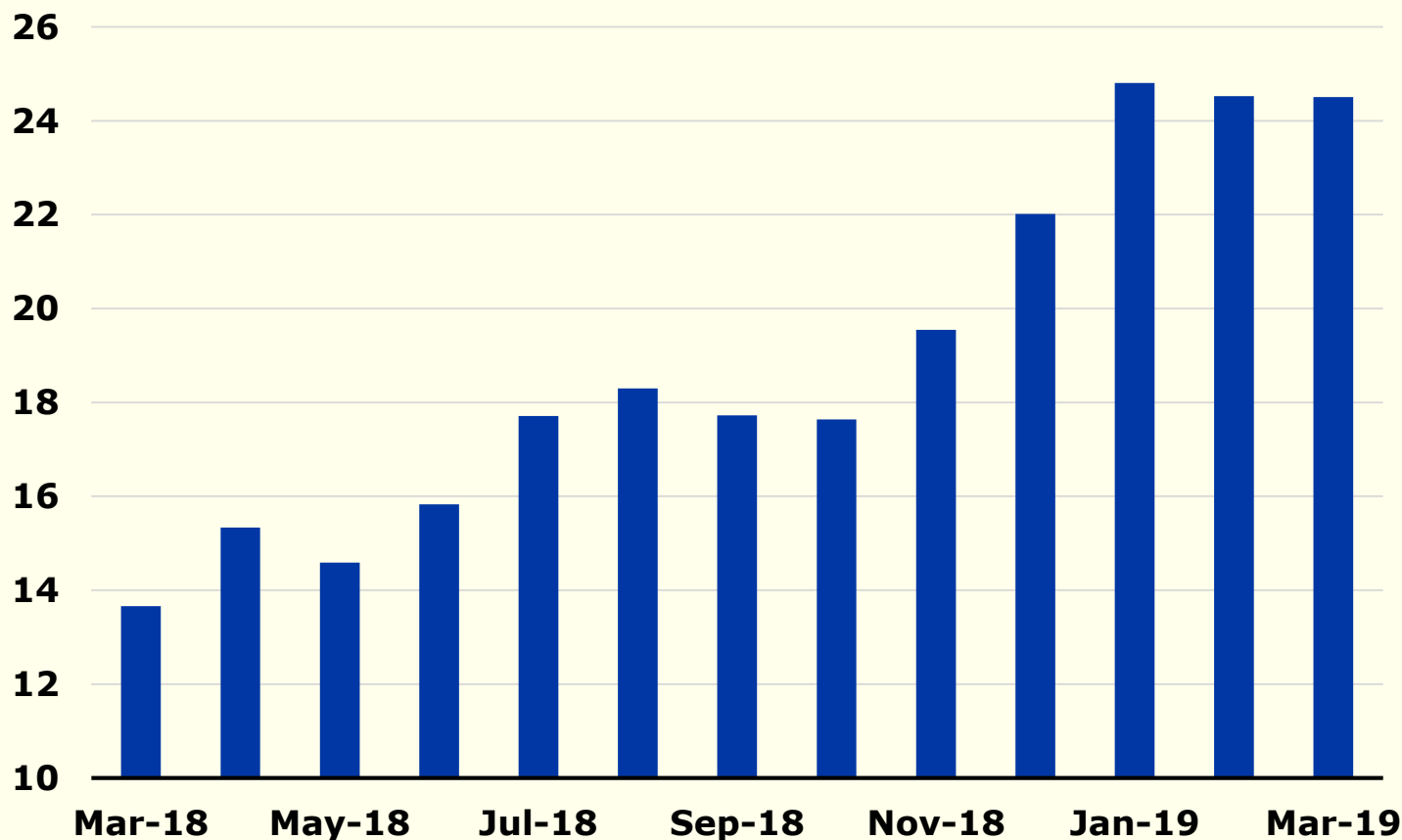
GCEA
members:

Average
probability of
recession in
next 12
months =
36%

WA State Economic
Update

April 11, 2019
Slide 24

Probability of recession in next 12 months



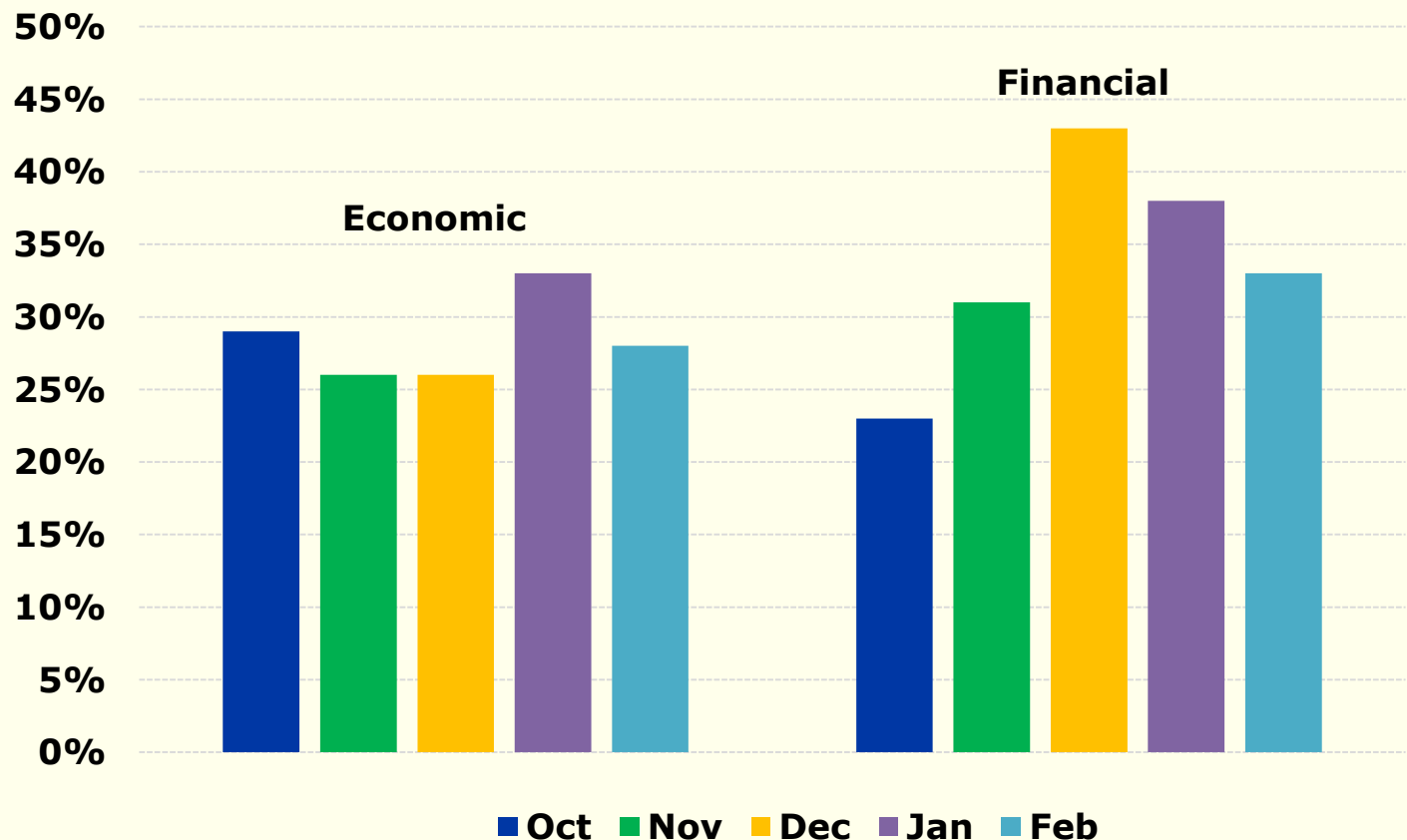
Source: Wall Street Journal economists' survey, data through Mar. 2019

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Recession probabilities in next 12 months based on economic and financial markets data

The probabilities are derived from models developed by Moody's Analytics



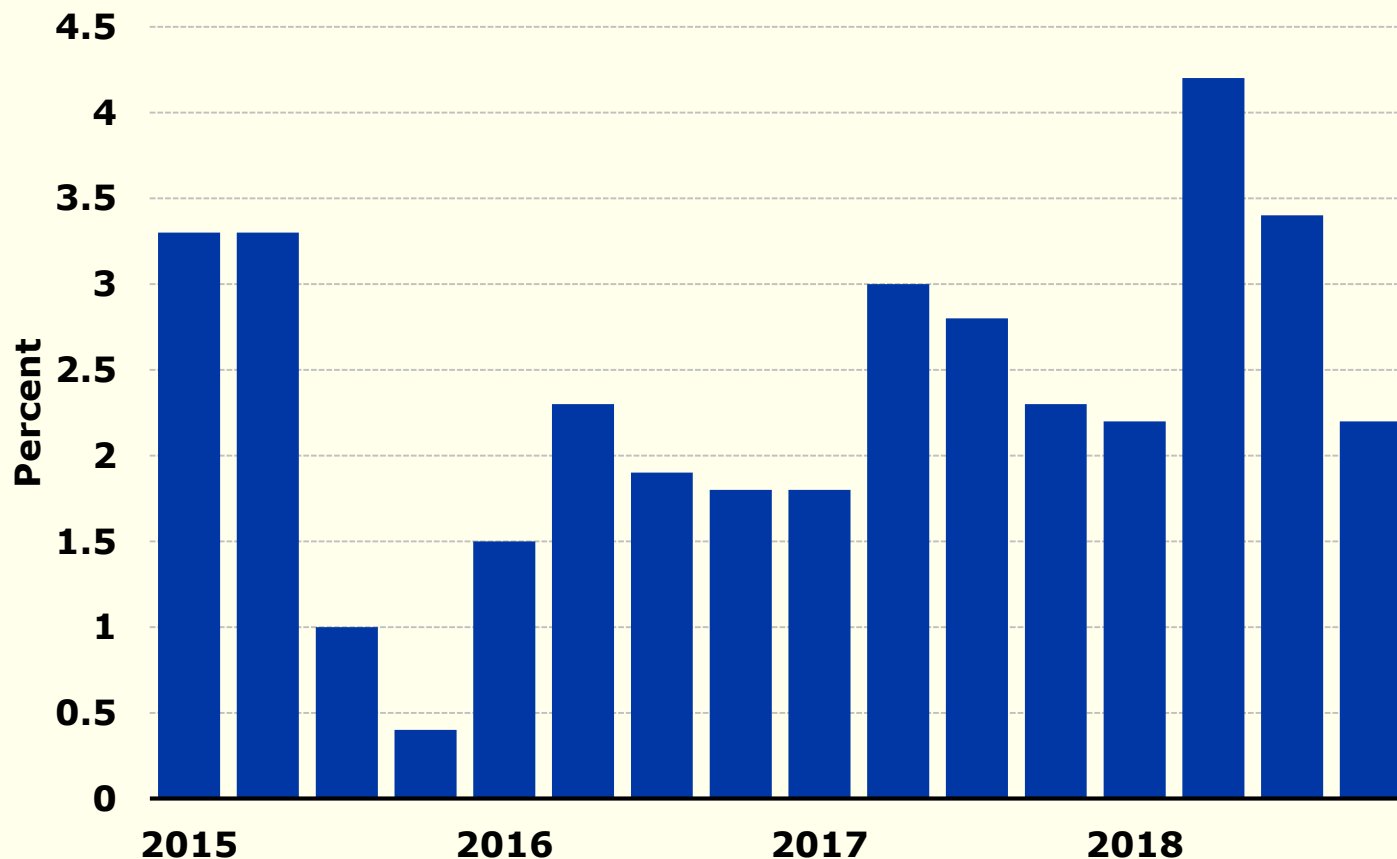
Source: Moody's Analytics, October 2018 – February 2019

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



U.S. real GDP growth has slowed

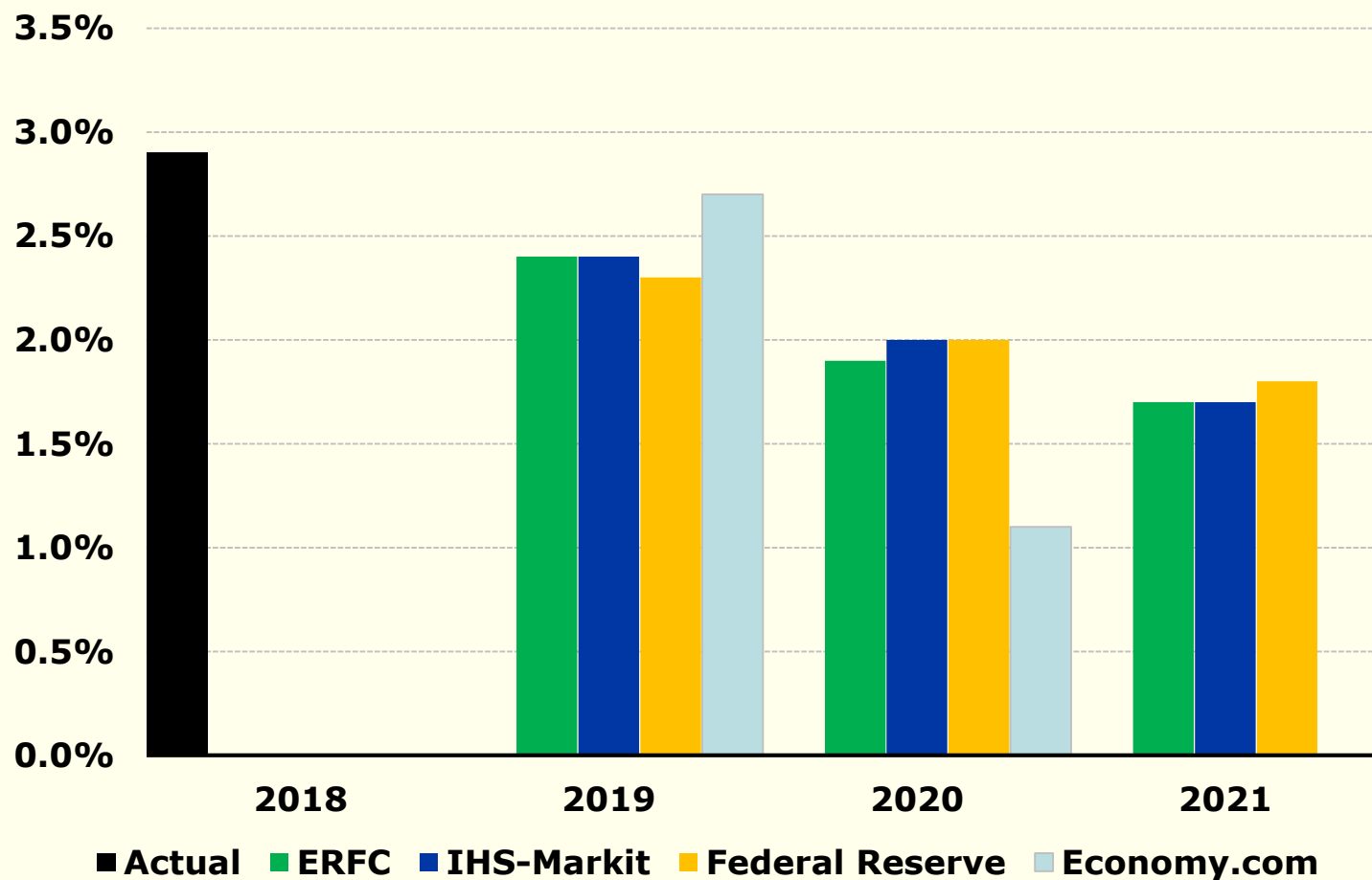
Due to the partial Federal government shutdown, 2018 Q4 data, which was released Feb. 28th, was not available for the ERFC March forecast.



Source: U.S. Bureau of Economic Analysis. Data through Q4 2018



Many forecasters expect U.S. economic growth to slow further

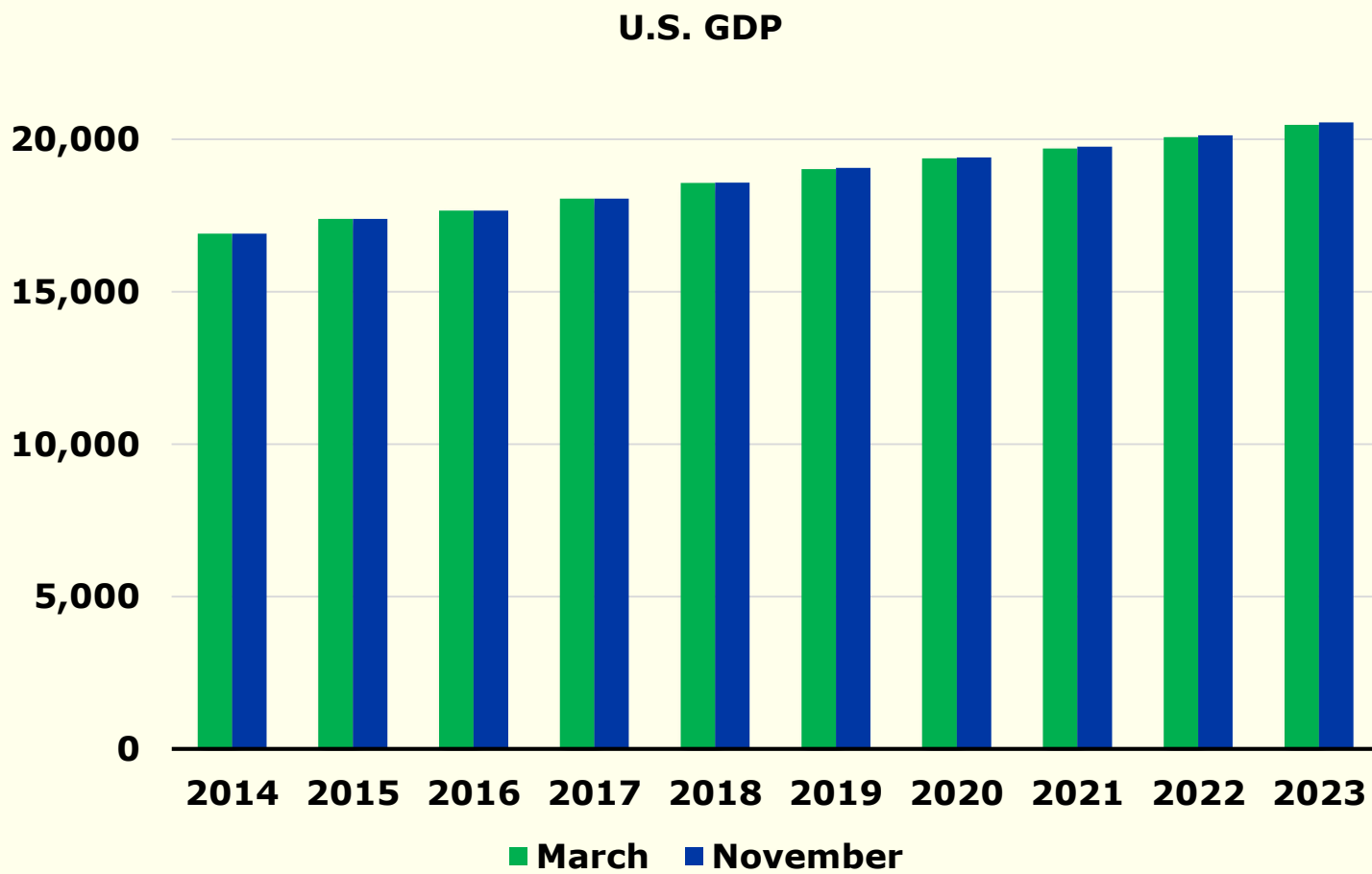


Sources: U.S. Bureau of Economic Analysis, ERFC Mar. 2019 forecast, IHS-Markit, Federal Reserve Board, Economy.com

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



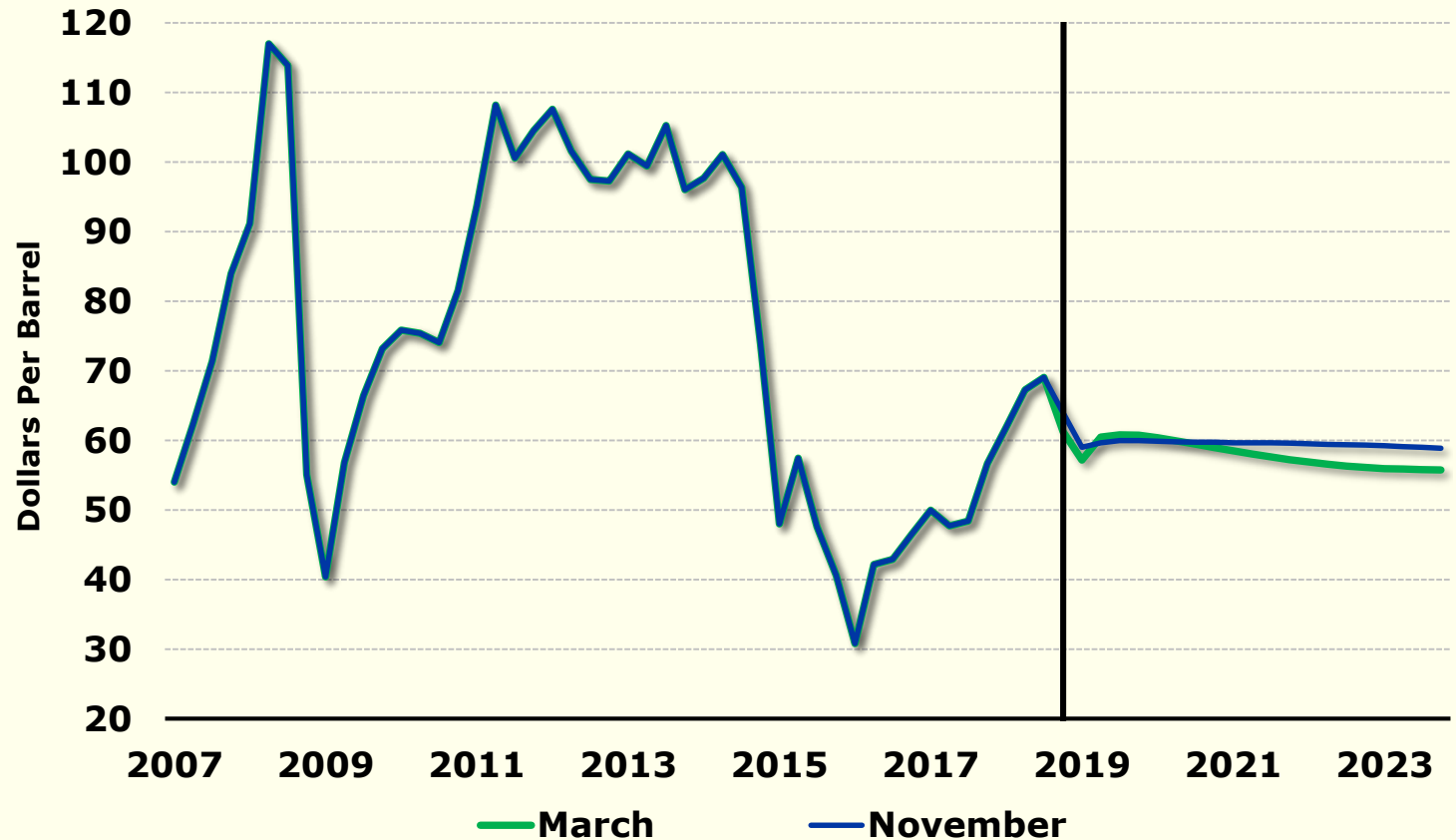
GDP is slightly lower than in November



Source: ERFC March 2019 forecast; historical data through 2018

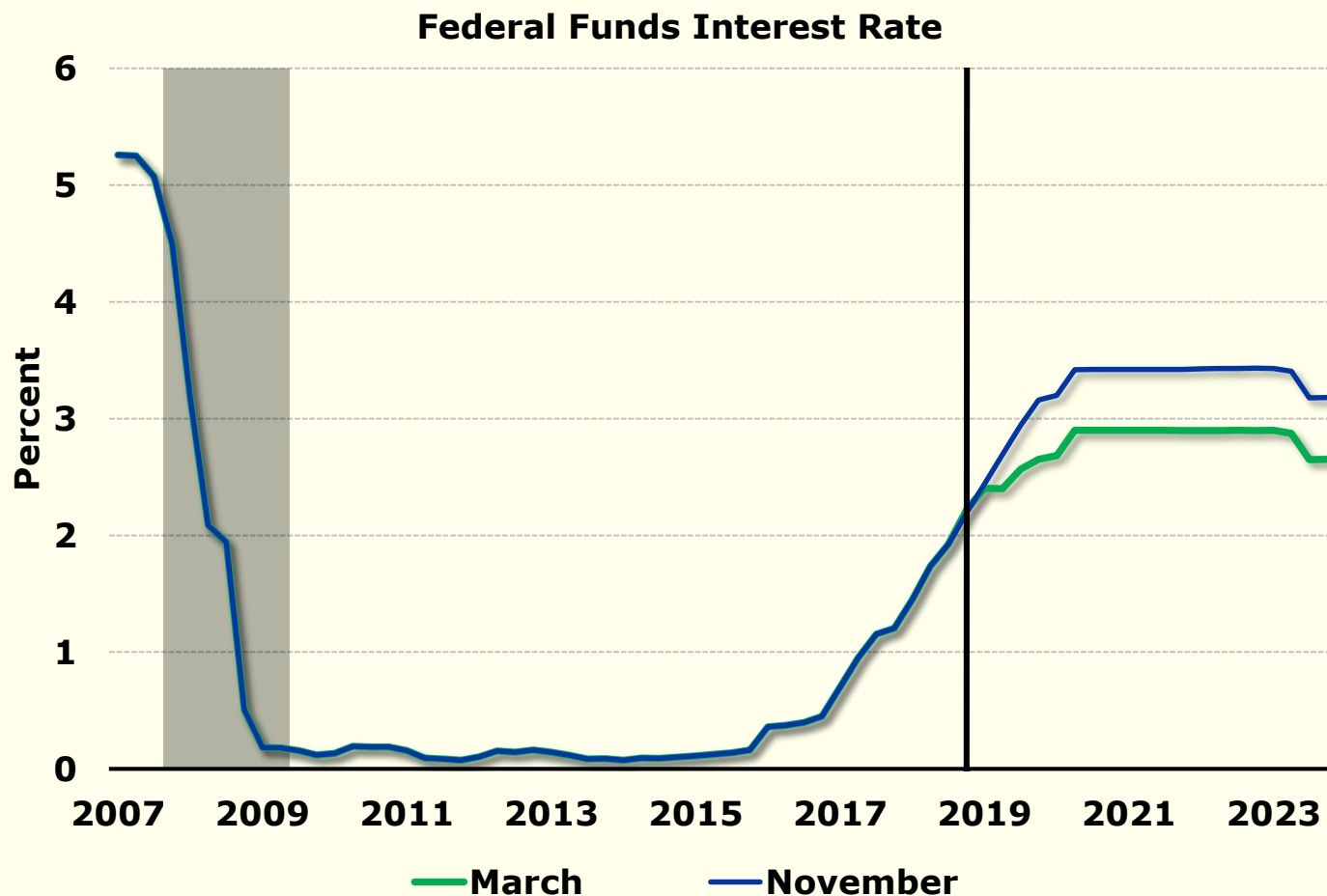


Oil prices are slightly lower than in the November forecast





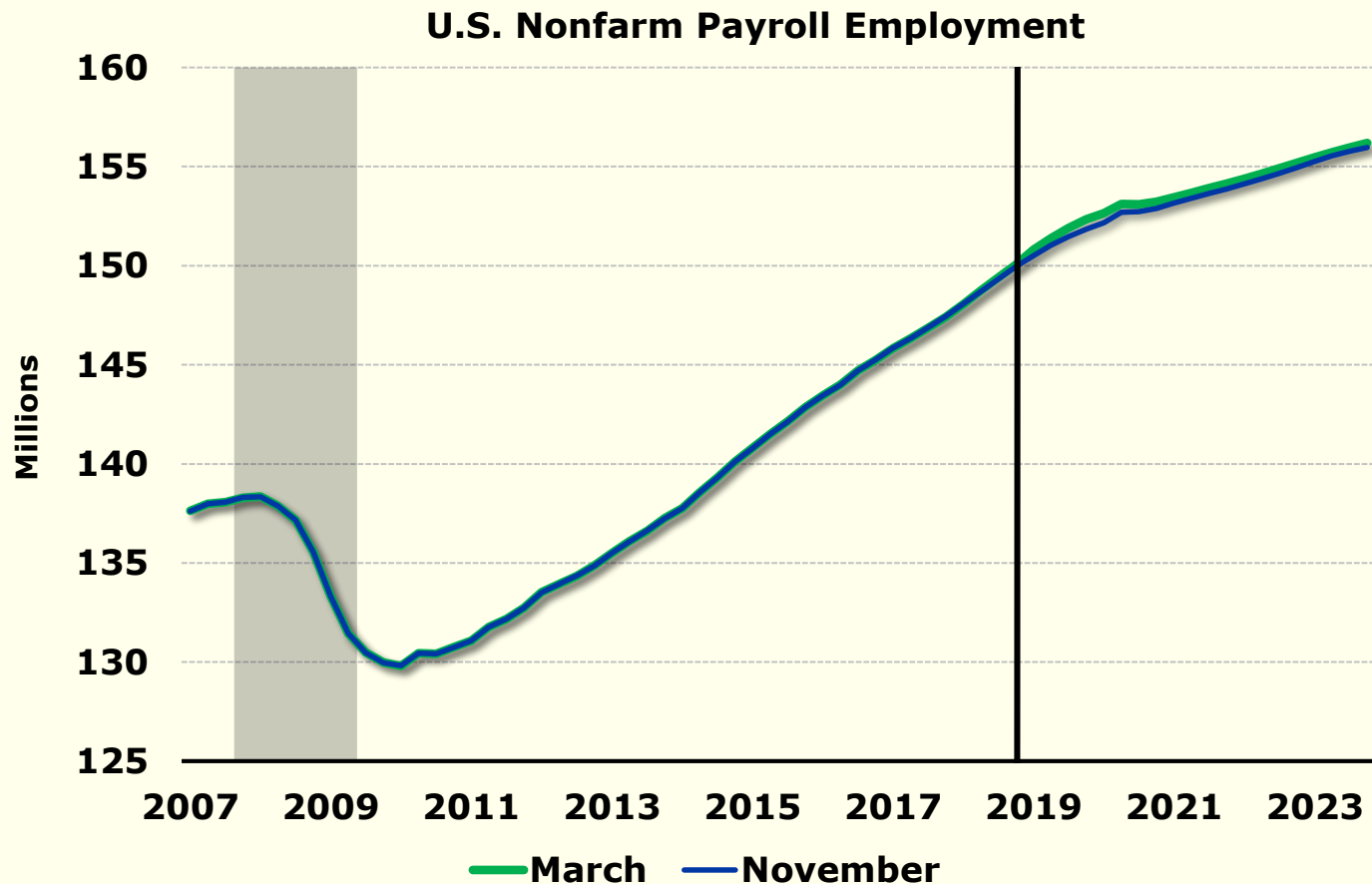
The Federal Reserve is not expected to raise interest rates as high as anticipated in November



Source: ERFC March 2019 forecast; historical data through Q4 2018



U.S. nonfarm payroll employment growth is very similar to the November forecast



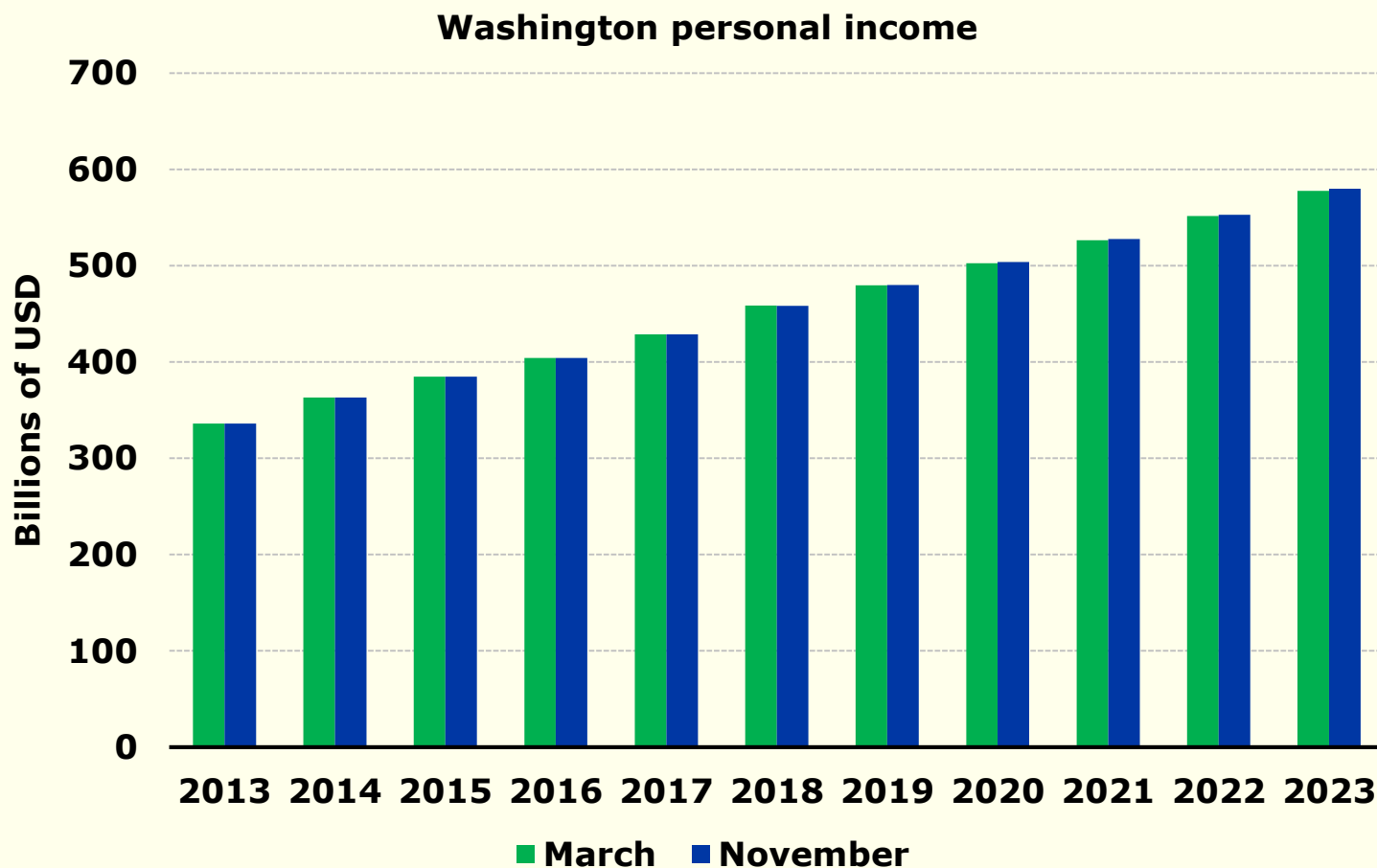
Source: IHS Markit, ERFC; data through Q4 2018

Note: Vertical black line indicates last actual

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



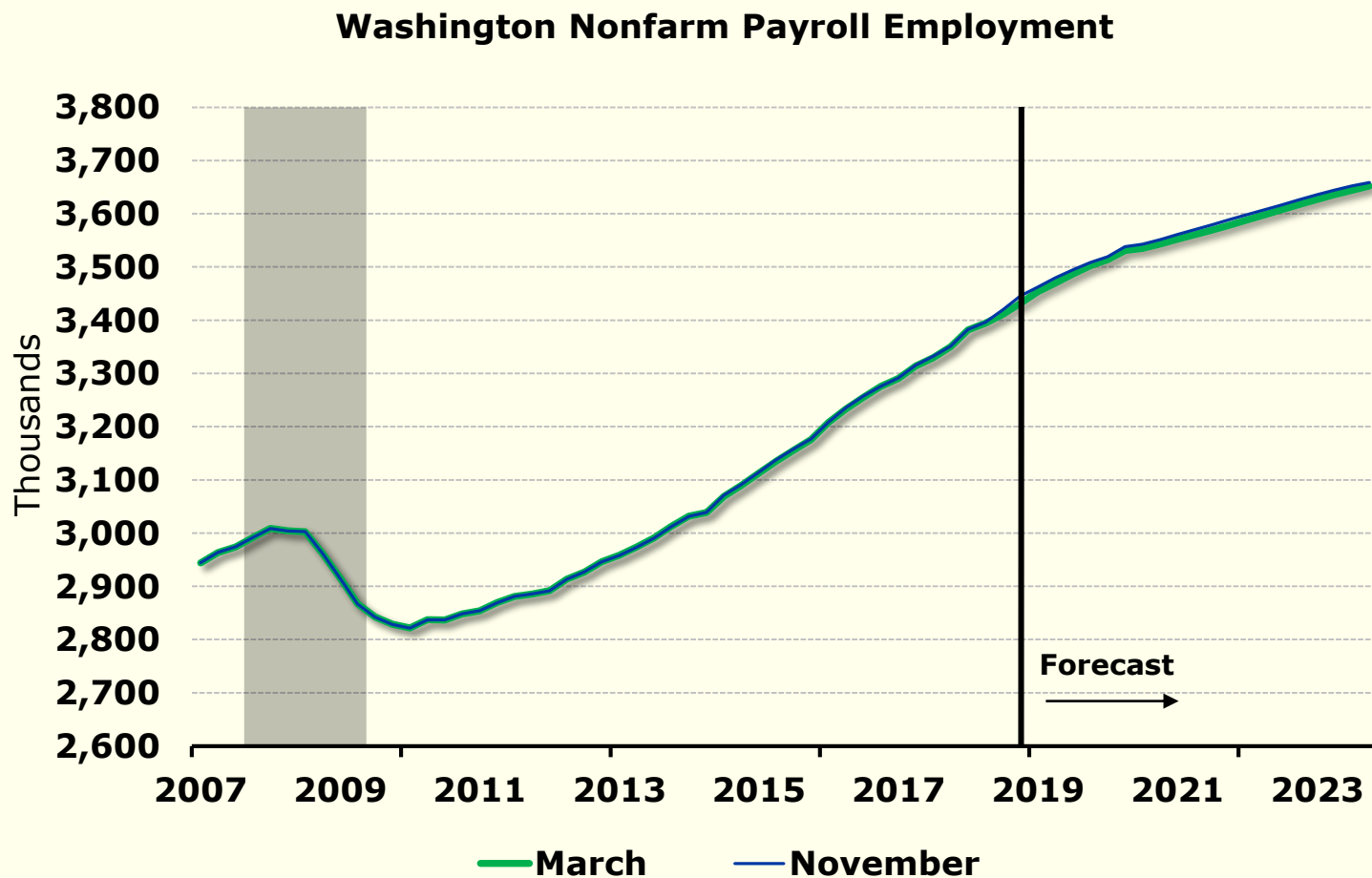
Washington personal income is slightly lower than in November



Source: ERFC March 2019 forecast; historical data through 2017

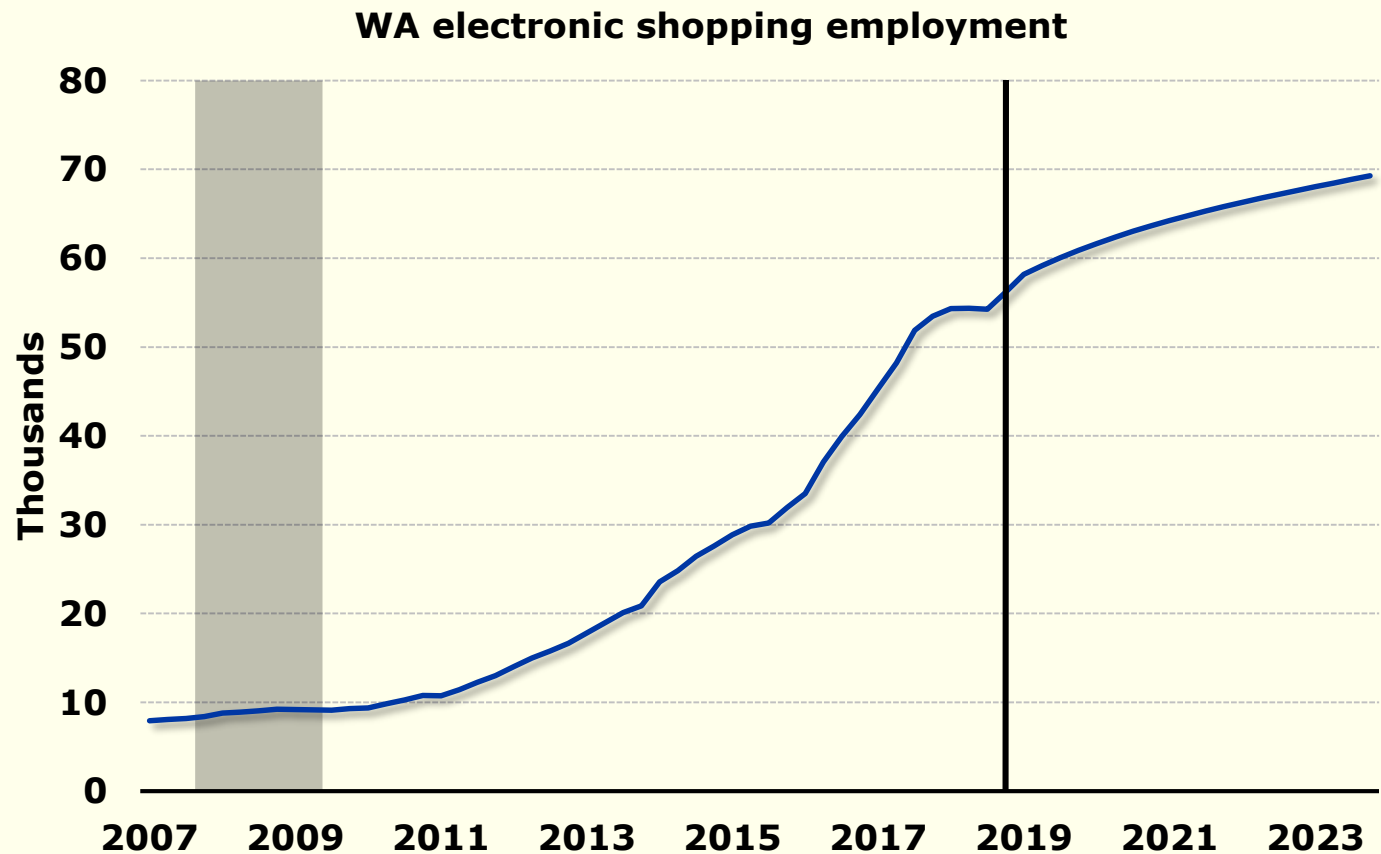


Washington employment forecast is slightly lower than in November





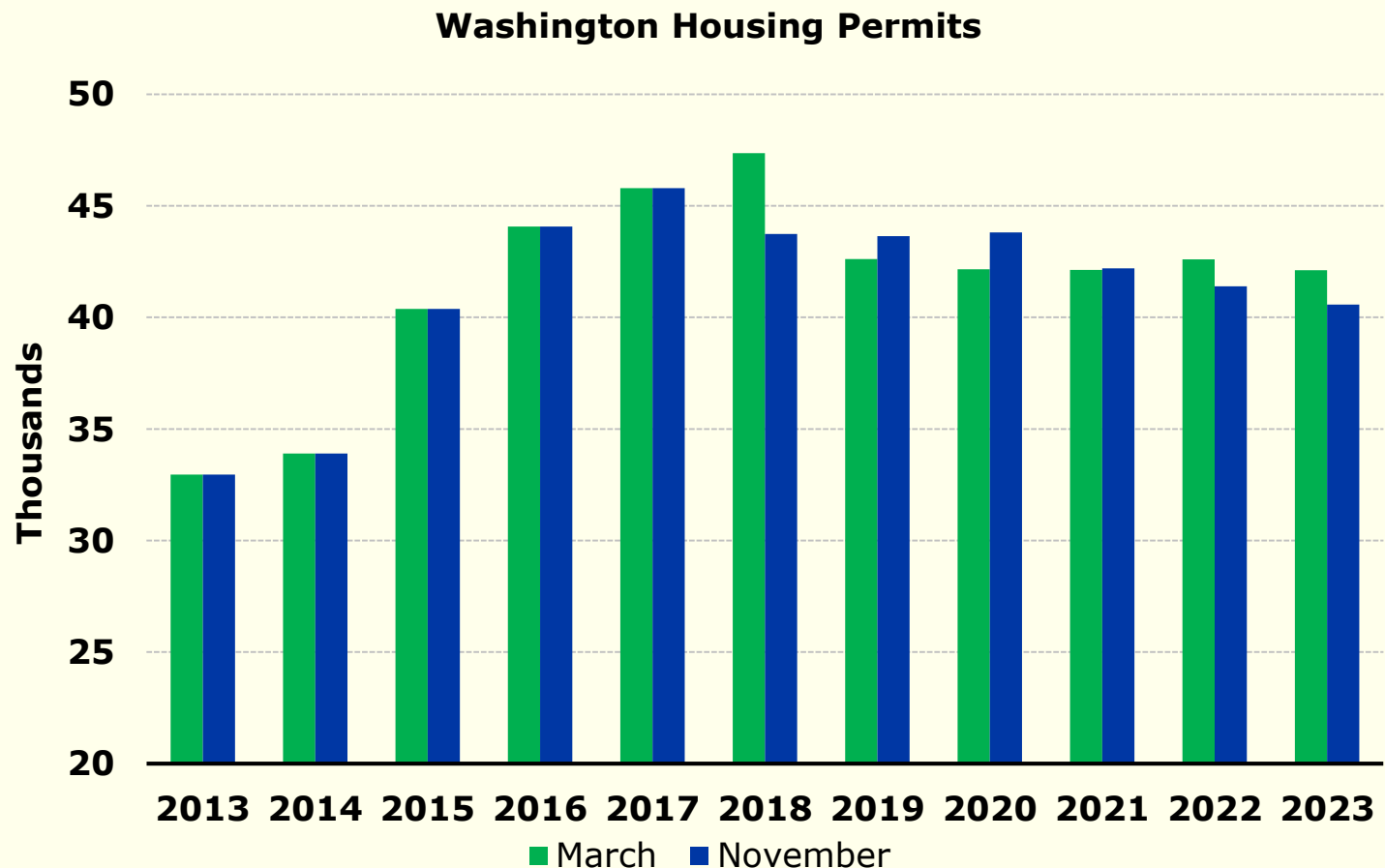
Online retail employment forecast consistent with press comments about future hiring plans



Source: ERFC March 2019 forecast; historical data through Q4 2018



Permits forecast for 2019 – 2023: average unchanged, timing slightly different compared to November



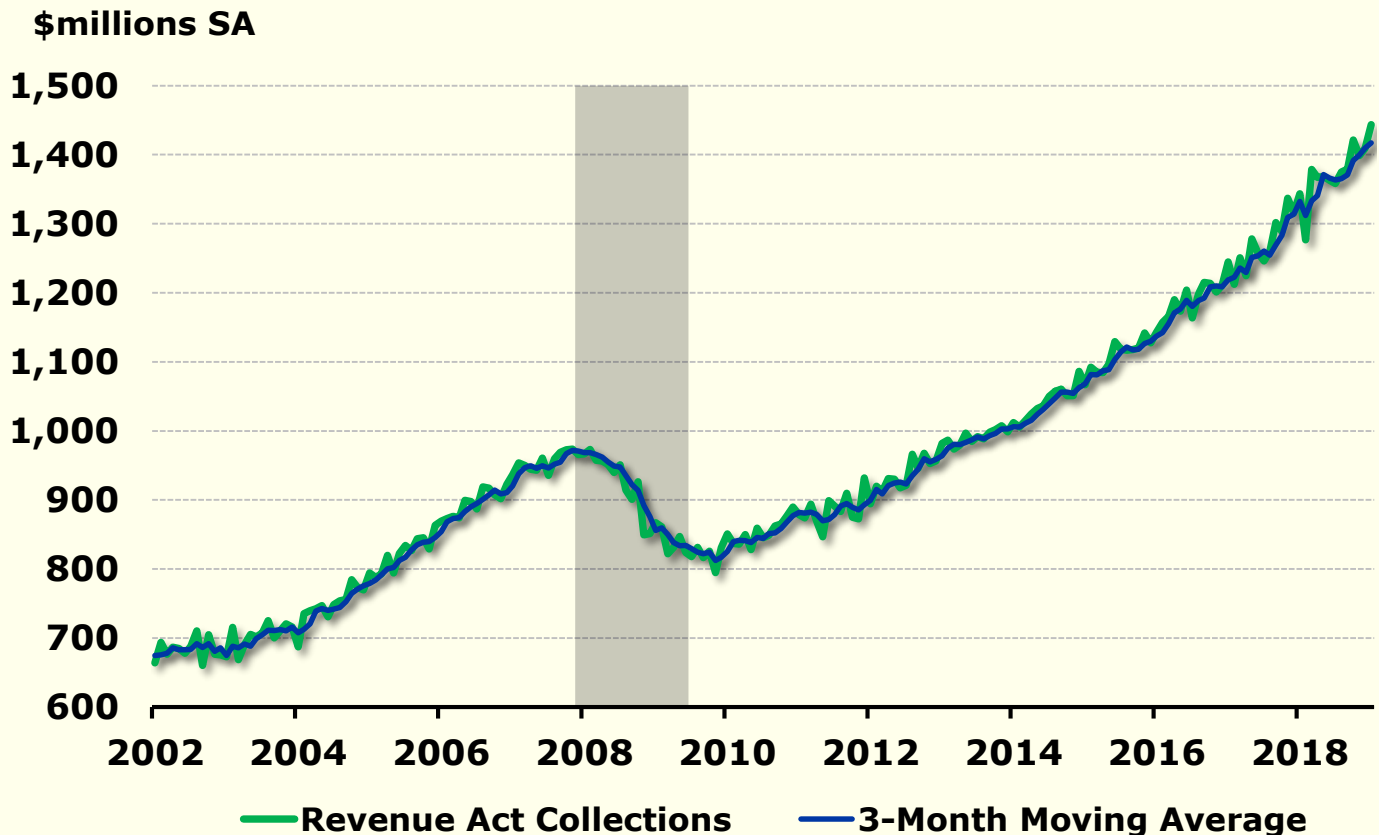
Source: ERFC March 2019 forecast; historical data through 2018



Revenue Act collections growth has been strong

Adjusted year-over-year collections growth (by quarter of activity):

2017Q4: 8.3%
2018Q1: 8.2%
2018Q2: 8.8%
2018Q3: 7.6%
2018Q4: 7.4%



* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through January 2019 activity



Rev Act collections still growing faster than personal income

Adjusted Rev Act growth YOY:

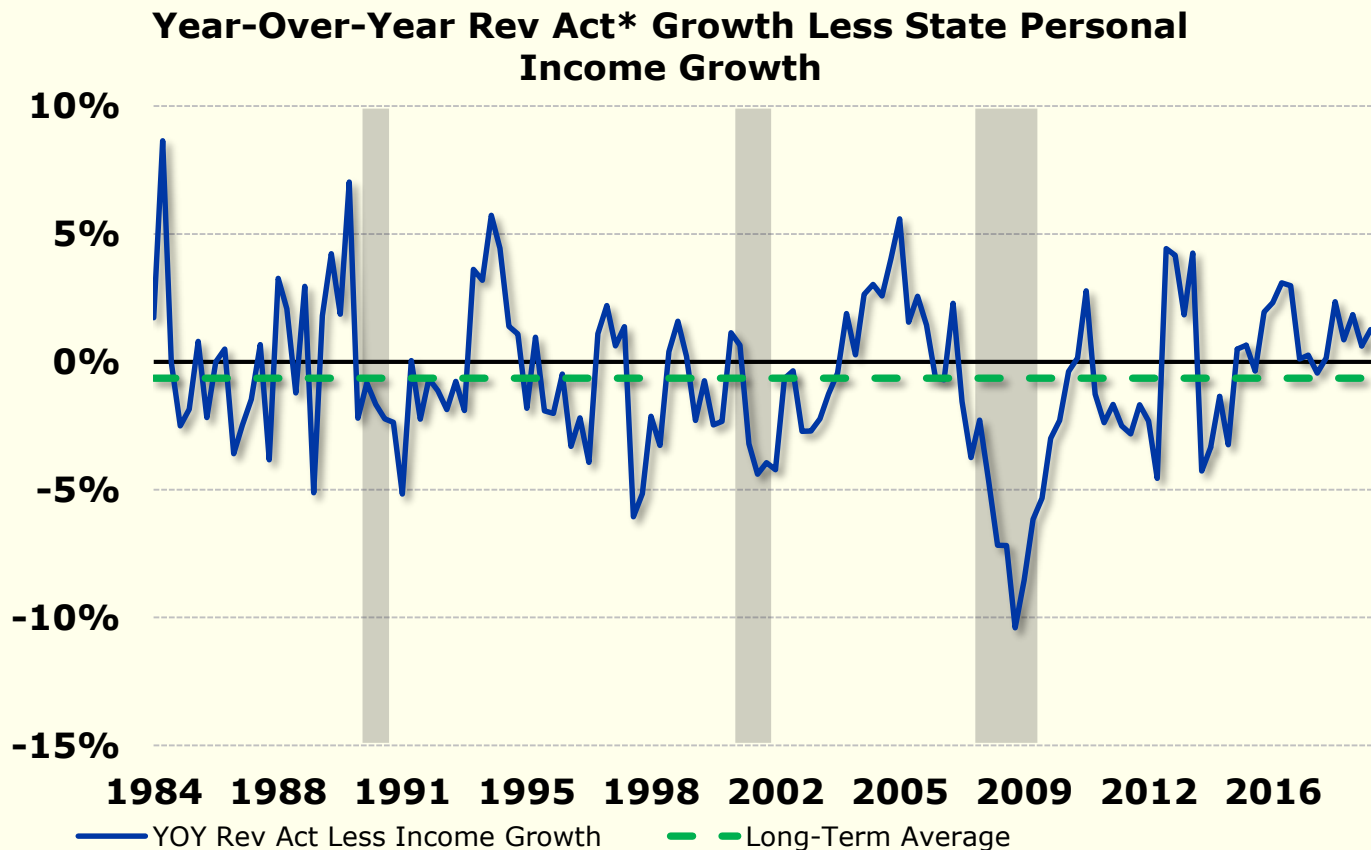
18Q1: 8.2%
18Q2: 8.8%
18Q3: 7.6%
18Q4: 7.5%

November personal income YOY growth estimates:

18Q1: 7.3%
18Q2: 7.0%
18Q3: 6.9%
18Q4: 6.2%

WA State Economic Update

April 11, 2019
Slide 37



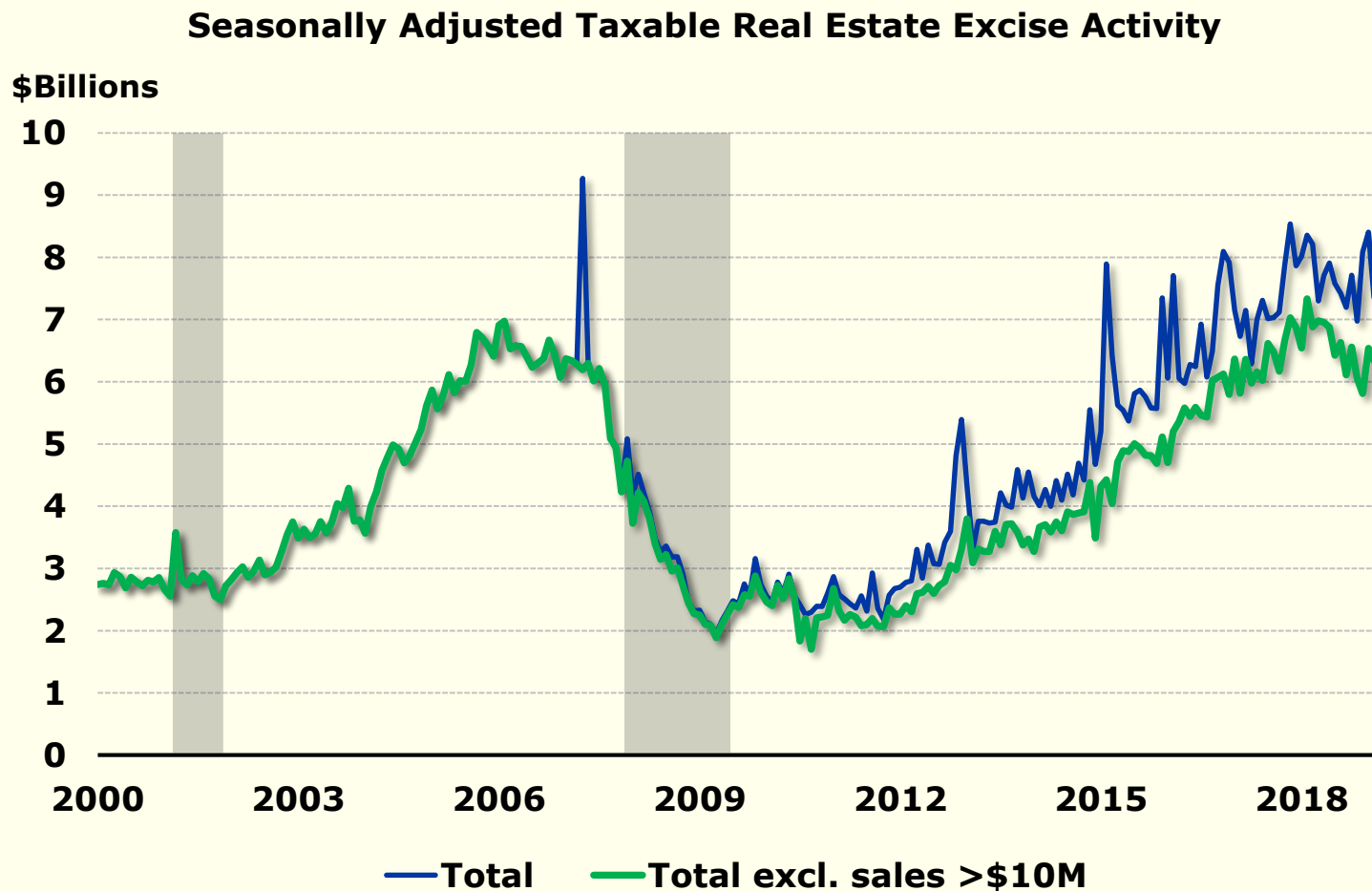
*Adjusted for large one-time payments and refunds and payments under the amnesty program
Source: ERFC; Quarterly revenue data through Q4 2018, March 2019 income estimates

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Taxable REET activity declined in February but remained strong

There were \$1.0 billion in large commercial sales (>\$10 million) in February, down from \$1.87 billion in January.



Source: ERFC; Monthly data through February 2019 preliminary



Assessed value on existing properties increased between November, March forecasts

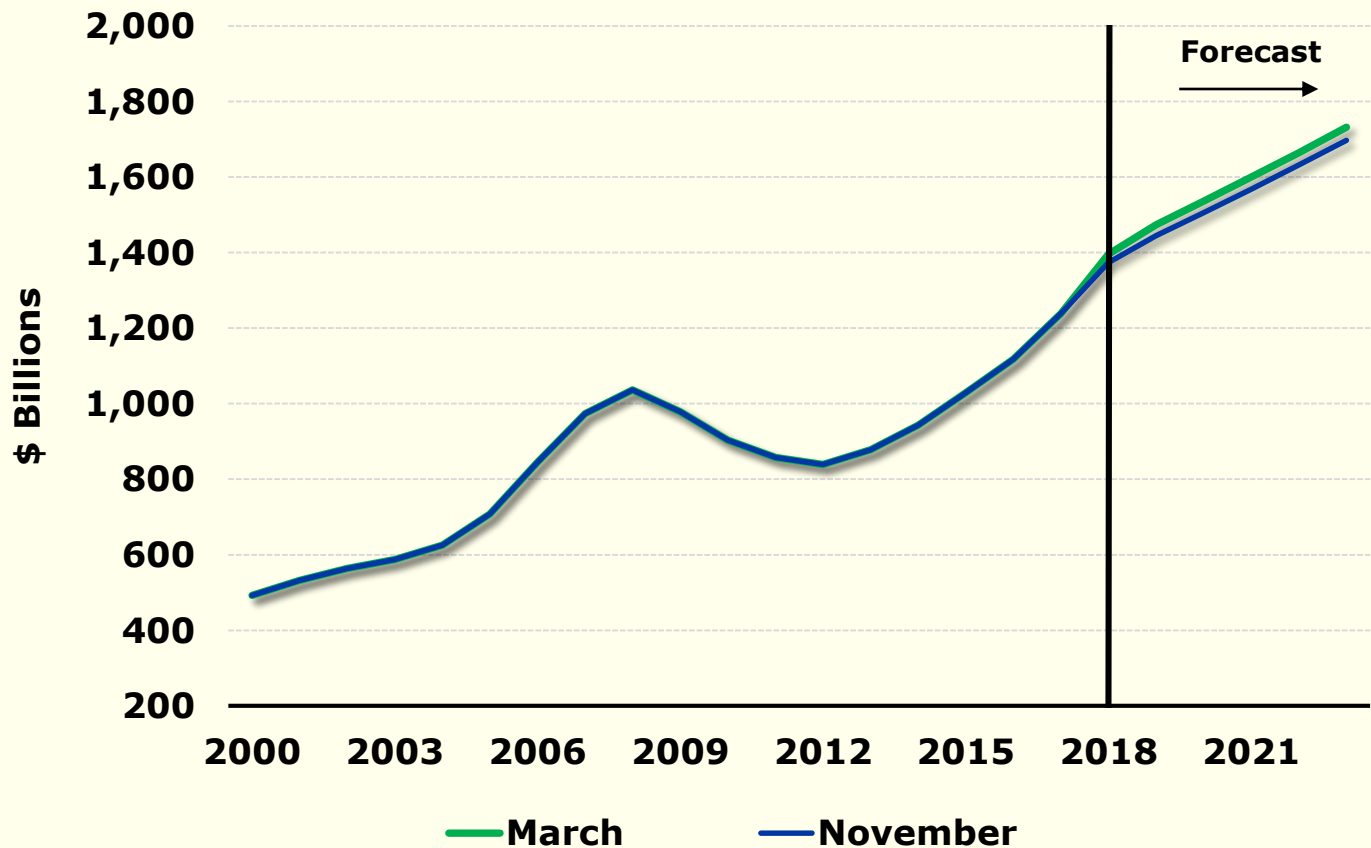
November forecast for growth in Market Value: 10.9%

Actual growth: 12.6%

Every 1.0 percentage point increase in Market Value growth adds between \$30-\$40 million in revenue per year

WA State Economic Update

April 11, 2019
Slide 39

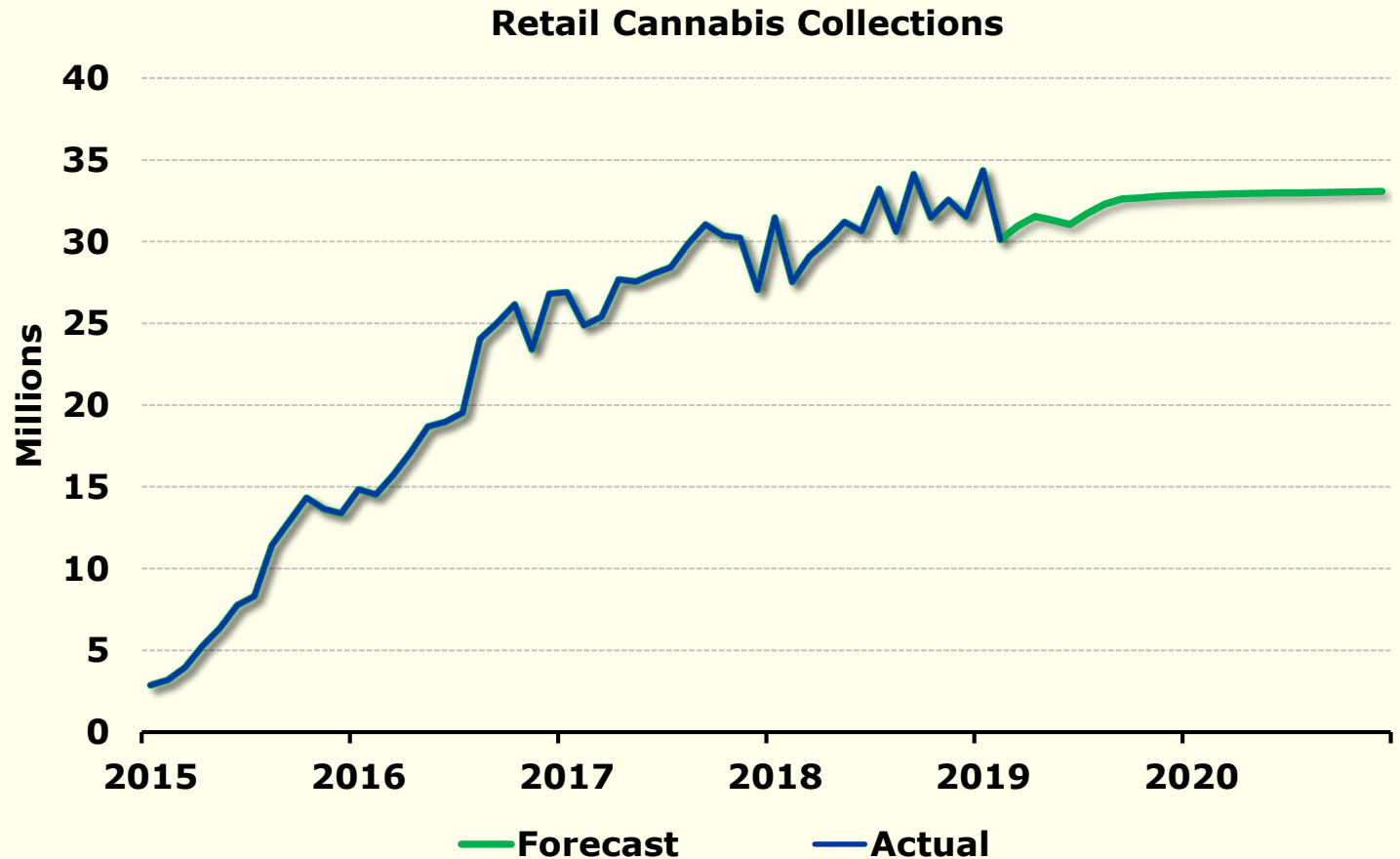


Source: ERFC March 2019 forecast; historical data through 2018

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Cannabis revenue growth is expected to moderate



Source: ERFC March 2019 forecast; historical data through February 2019



Cannabis excise tax and license fee estimates

Total change since November forecast:

- 2017-19
+\$0.02M
- 2019-21
+\$1.67M
- 2021-23
-\$2.85M

\$Millions

Cannabis Forecast

	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>
GF-S share of excise tax and license fees	\$247	\$272	\$291
Non-GF	\$501	\$527	\$545
Total	\$749	\$799	\$836



Forecast changes: Near General Fund-State, 2017-2019 biennium

As of March 11, General Fund-State collections were \$245.0 million higher than the November forecast.

\$Millions	<u>November 2018 Forecast*</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>March 2019 Forecast</u>	<u>Total Change[#]</u>
General Fund-State	\$43,926	\$0	\$256	\$44,182	\$256
Education Legacy Trust Account	\$1,591	\$0	\$51	\$1,642	\$51
WA Opportunity Pathways Account	\$282	\$0	\$0.2	\$282	\$0.2
Total Near GF-S	\$45,799	\$0	\$307	\$46,106	\$307

* Forecast for the 2017-19 biennium adopted November 20, 2018

Detail may not add to total due to rounding

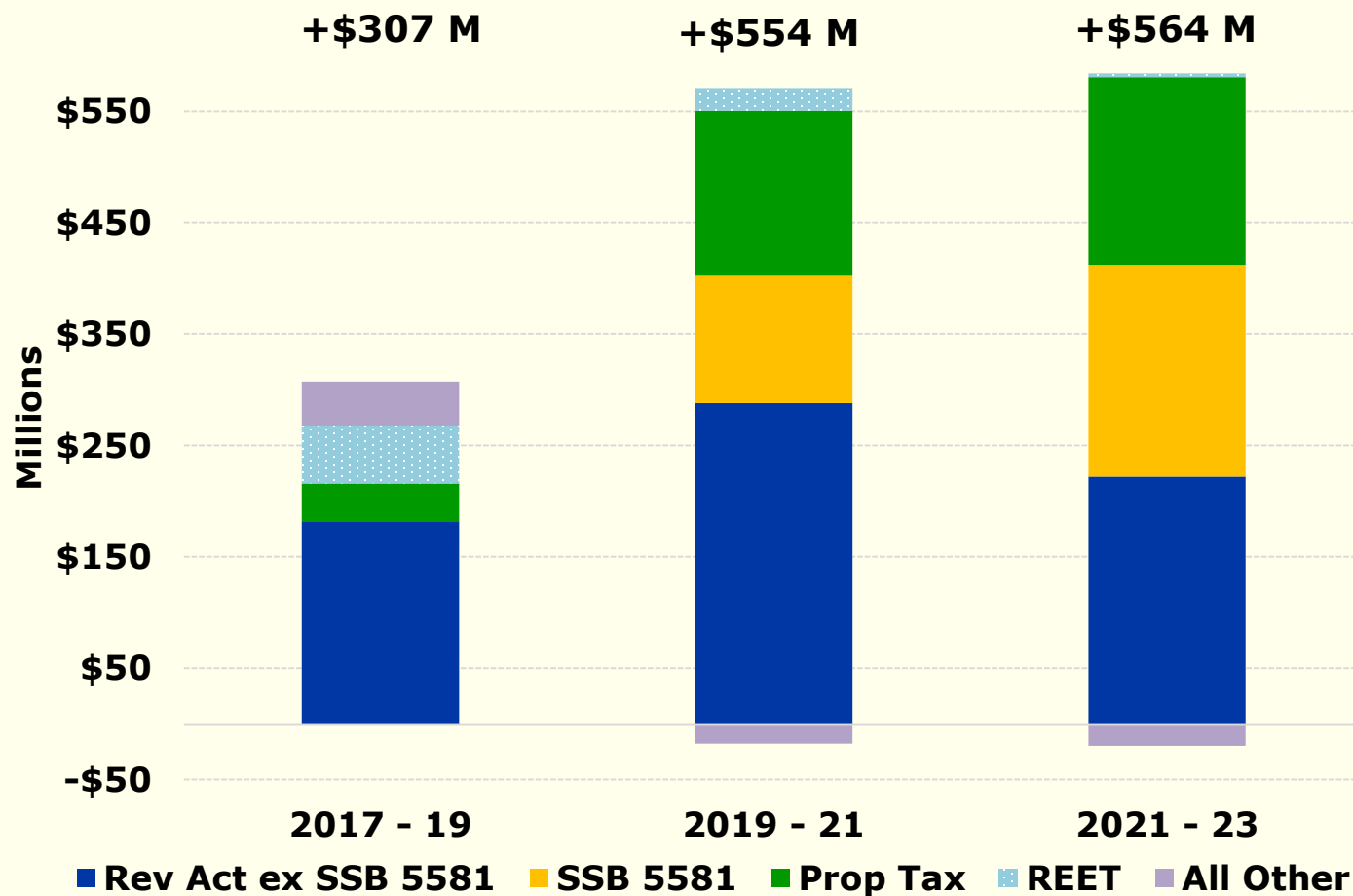


Forecast changes: Near General Fund-State, 2019-2021 biennium

\$Millions	<u>November 2018 Forecast*</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>March 2019 Forecast</u>	<u>Total Change#</u>
General Fund-State	\$49,064	\$115	\$430	\$49,609	\$545
Education Legacy Trust Account	\$672	\$0	\$1	\$673	\$1
WA Opportunity Pathways Account	\$266	\$0	\$8	\$274	\$8
Total Near GF-S	\$50,002	\$115	\$439	\$50,555	\$553



Near GF-S forecast changes by source



Source: ERFC March 2019 forecast



2017-19 Biennium alternative General Fund-State forecasts

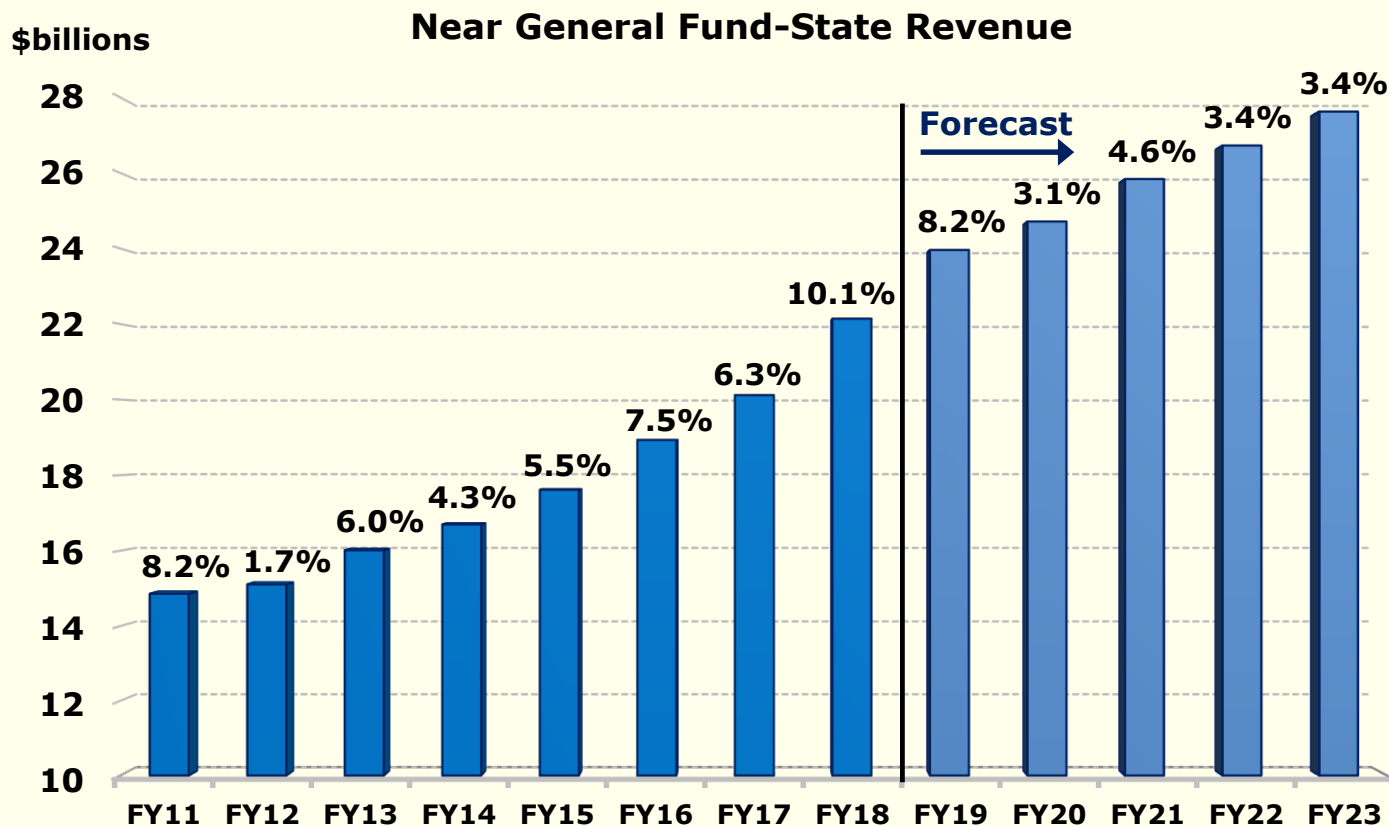
\$Millions (cash basis)	2017-19 Biennium	Difference From the baseline[#]
March 2019 Baseline (70%)	\$44,182	
<u>March 2019 Alternative Forecasts</u>		
Optimistic (15%)	\$44,413	\$231
Pessimistic (15%)	\$43,938	(\$243)
Probability Weighted Average	\$44,180	(\$2)
GCEA*	\$44,198	\$17

*Based on the Governor's Council of Economic Advisors' economic assumptions

[#]May not add to total due to rounding



Near General Fund-State* forecast by fiscal year





Conclusion

- Economic forecasts are only slightly changed from November
- Washington's economy is continuing to outperform the nation but not as dramatically as in past
- Threats to economic expansion include concerns about international trade and fiscal policy, geopolitical risks and a maturing expansion
- GF-S revenues are expected to grow 15.3% between the 2015-17 and 2017-19 biennia and 12.3% between the 2017-19 and 2019-21 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



**Economic & Revenue Forecast Council
PO BOX 40912
Olympia WA 98504-0912**

**www.erfc.wa.gov
360-534-1560**